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Savings Bank Journal

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Volume 60 October 1979 Number 8

Report From Industry's Mortgage Conference

EFT's Influence On Future Bank Office Design —One View

New Hampshire Annual Keys on Asset, Liability Strategies

Crimes Against Banks

...On How to Thwart Those Bad-Check Passers

...On 1979's Record-Breaking Rate Of Bank Robberies

Also: Nationwide NOW Account Bill Passes House ■ Fed OK's Savings Banks' Plan to Acquire Commercial Bank ■ Big-Ticket Premiums Instead of Interest Lure Savings ■ First Sale of GNMA-Backed Bonds by Boston Mutuals ■ Washington S&L Converting to Savings Bank ■ Starts Slip, Rates Up Again

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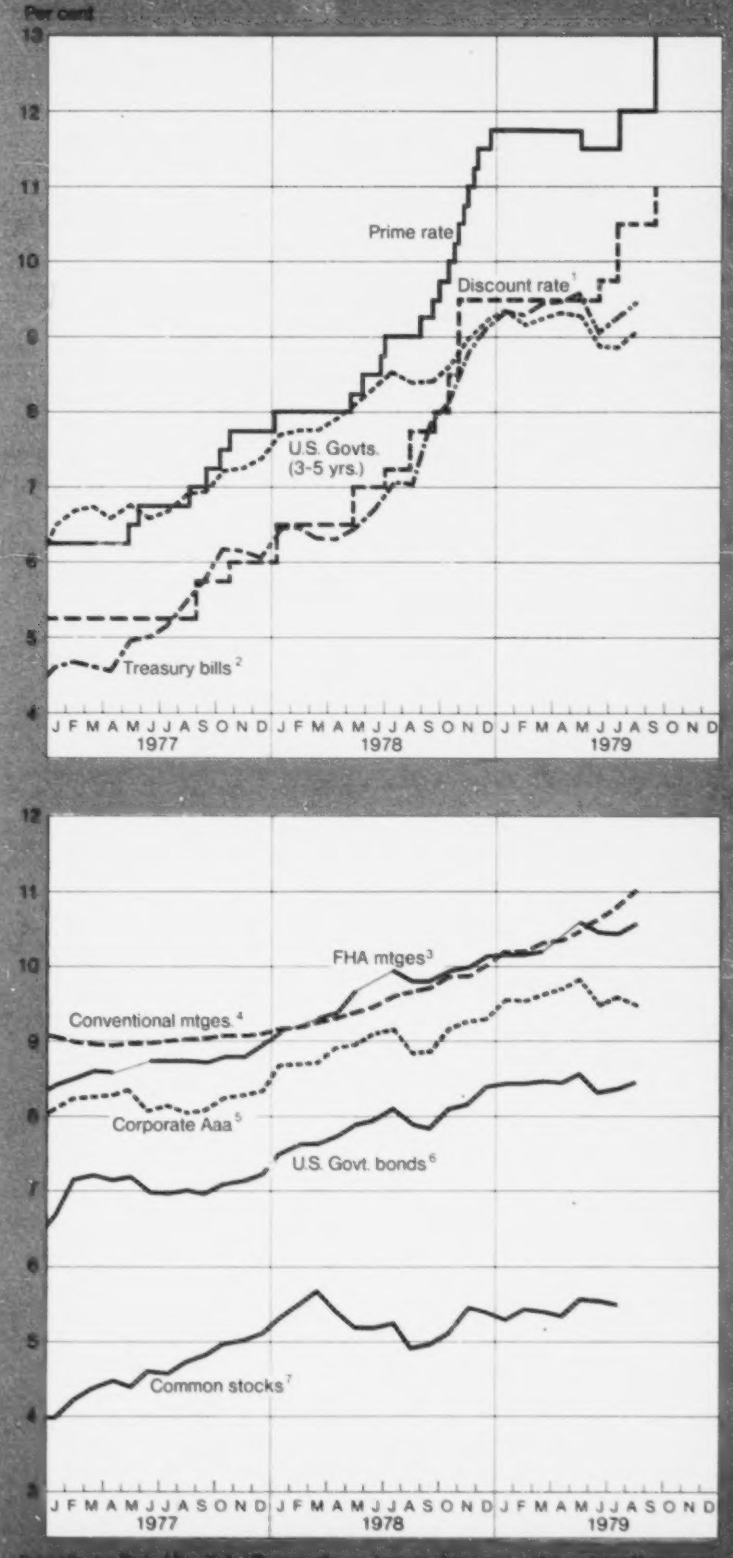
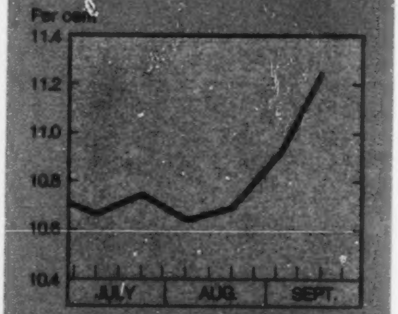
SBJ Money and Capital Market Yield Trends



[1] Federal Reserve Bank of New York. [2] Three months, new issue rate. [3] Average secondary market yield on new construction; sec. 203, 30-year maturity, 15-year pre-payment and minimum down-payment. [4] Effective rate for purchase of new single-family homes. [5] New issues. [6] Maturing or callable in 10 years or more. [7] Standard & Poor's 500 stocks dividend yield ratio.

FNMA Commitment Yields



Note: Data are average yields on mortgage commitment bids accepted by the Federal National Mortgage Association at its biweekly auctions. Data are for 120-day bids. Yields are gross of ⅜% servicing fee. Figures assume 30-year mortgages with an assumed prepayment period of 12 years.

DEPOSIT ACTIVITY IN REGULAR ACCOUNTS IN MUTUAL SAVINGS BANKS,[1] BY STATES

(Amounts in thousands of dollars)

State	July 1979					July 1978				
	Amounts Deposited[2]	With-drawals	Net Change in Deposits			Amounts Deposited[2]	With-drawals	Net Change in Deposits		
			Excluding Interest	Incl. Interest				Excluding Interest	Incl. Interest	
				Amt.	%				Amt.	%
Connecticut	898,889	955,196	—56,307	12,454	.10	732,106	704,654	27,452	78,939	.68
Indiana	21,499	19,452	2,047	2,049	.94	12,583	12,901	—318	—235	—.11
Maine	229,954	217,472	12,482	25,604	1.13	140,150	120,947	19,203	29,526	1.41
Maryland	91,317	101,240	—9,923	4,566	.32	72,803	72,452	351	5,474	.42
Massachusetts	1,943,883	1,993,403	—49,520	63,757	.31	1,327,383	1,299,230	28,153	133,002	.67
New Hampshire	231,373	229,467	1,906	13,848	.61	174,823	156,063	18,760	29,247	1.39
New Jersey	671,979	662,610	9,369	56,775	.72	592,111	505,785	86,326	119,623	1.68
New York—City	4,316,993	4,889,366	—572,373	—528,083	—.96	3,312,349	3,509,885	—197,536	—170,438	—.32
—Upstate	1,871,966	1,919,771	—47,805	—18,566	—.08	1,274,357	1,238,384	35,973	47,145	.23
Pennsylvania	1,359,610	1,367,017	—7,407	33,233	.28	894,849	873,546	21,303	54,342	.50
Rhode Island	161,914	159,125	2,789	8,685	.56	90,998	105,803	—14,805	—4,079	—.28
Vermont	79,514	77,820	1,694	3,853	.51	47,677	44,036	3,641	5,721	.83
Washington	371,251	368,993	2,258	2,790	.08	265,447	263,326	2,121	2,641	.07
Wisconsin	5,761	4,960	801	910	1.22	2,803	2,829	—26	5	.01
All other states	238,034	241,773	—3,739	204	.01	179,145	171,589	7,556	10,139	.49
Total	12,493,937	13,207,665	—713,728	317,921	.22	9,119,584	9,081,430	38,154	341,052	.25

Note: See notes to "Assets and Liabilities of All Mutual Savings Banks."

[1] Excludes special purpose accounts such as checking, Christmas, vacation and school.

[2] Excludes interest credited.

Source: National Association of Mutual Savings Banks.

Table 1

Income and Expenses of Mutual Savings Banks, by States, 1978

(In millions of dollars)

Item	Total	New York	Mass.	Conn.	Pa.	N.J.	Wash.	N.H.	Me.	R.I.	Md.	All other states
Total operating income	11,824	6,257	1,706	1,033	911	624	351	195	193	132	122	300
Interest and dividends on securities	3,530	2,136	396	176	400	206	37	39	36	24	21	60
U.S. Government and agency obligations	1,267†	774	n.a.	55	81	123	20	18	17	16	12	24
Other securities	2,263†	1,362	n.a.	121	319	83	18	20	19	8	9	35
Net interest and discount on loans	7,930	3,990	1,168	832	499	404	301	154	154	103	93	233
Mortgage loans	7,266†	3,692	n.a.	734	469	373	271	134	135	91	74	219
Other loans	664†	299	n.a.	98	31	31	30	20	19	11	19	14
Other operating income	364	130	142	26	11	15	12	3	4	5	8	8
Operating expenses and taxes	2,351	1,145	391	248	130	125	90	42	43	33	33	71
Net operating income after expenses and taxes	9,473	5,112	1,314	786	780	500	261	153	150	99	89	230
Interest paid depositors	8,512	4,660	1,171	710	692	439	220	131	128	86	75	201
Net operating income after expenses, taxes and interest	961	452	143	76	88	61	40	22	22	13	14	29
Net realized gains or losses on assets	-69	-40	-21	6	-7	-3	-1	*	-1	*	*	-1
Securities	-60†	-36	n.a.	6	-12	*	1	1	-1	*	*	-1
Real estate mortgage loans	-29†	-16	n.a.	*	*	-1	-3	*	*	—	*	-1
Real estate	-2†	*	n.a.	*	*	-2	*	*	*	*	*	*
Other	23†	11	n.a.	1	4	*	*	-1	*	—	*	*
Retained earnings	892	411	123	82	81	59	39	22	21	13	14	28

n.a. — not available. *Less than $500,000. NOTE: Data are preliminary.

†Partly estimated; separate data for Massachusetts are not available. Source: National Association of Mutual Savings Banks.

Table 2

Income and Expense Ratios for Mutual Savings Banks, by States, 1978

(In per cent)

Item	Total	New York	Mass.	Conn.	Pa.	N.J.	Wash.	N.H.	Me.	R.I.	Md.	All other States
Ratios to total assets:												
Total operating income	7.72	7.56	7.82	7.92	7.71	7.70	8.89	8.20	8.27	8.07	7.83	8.12
Total operating expenses and taxes	1.54	1.38	1.79	1.90	1.10	1.54	2.28	1.78	1.85	2.01	2.11	1.91
Interest paid depositors	5.56	5.63	5.37	5.44	5.85	5.41	5.59	5.50	5.49	5.25	4.83	5.43
Net operating income after expenses, taxes and interest	.63	.55	.66	.58	.75	.75	1.02	.93	.93	.81	.89	.78
Net realized gains or losses	-.04	-.05	-.10	.05	-.06	-.03	-.03	*	-.05	-.02	.01	-.02
Retained earnings	.58	.50	.56	.63	.69	.72	.99	.92	.88	.79	.90	.75
Ratios to total deposits:												
Interest paid depositors	6.13	6.20	5.92	6.05	6.36	5.93	6.23	6.20	6.07	5.87	5.57	6.13
Retained earnings	.64	.55	.62	.70	.74	.79	1.11	1.04	.97	.88	1.04	.85
Ratios to securities held:												
Interest on U.S. Government and agency securities	7.67†	7.70	n.a.	7.49	7.86	7.79	7.39	7.25	7.54	7.37	6.97	7.27
Interest and dividends on other securities	7.61†	7.67	n.a.	6.98	7.74	7.52	7.61	7.77	7.35	7.07	6.78	7.32
Interest and dividends on total securities	7.63†	7.68	n.a.	7.13	7.77	7.68	7.49	7.51	7.44	7.27	6.89	7.31
Net realized gains or losses on total securities	-.10†	-.13	n.a.	.24	-.23	*	.24	.15	-.25	-.09	.05	-.11
Ratios to mortgage loans:												
Net interest and discount on mortgage loans	7.90†	7.66	n.a.	8.17	7.98	7.98	9.22	8.59	8.55	8.24	7.99	8.61
Net realized gain or loss	-.03†	-.03	n.a.	*	*	-.02	-.10	-.01	*	—	*	-.03

n.a. — not available. *Less than .005%. NOTE: Data are preliminary.

†Ratios are computed on the basis of data from states other than Massachusetts.

NOTE: Ratios are computed from data in Table 1 and average asset and liability figures.

Source: National Association of Mutual Savings Banks.

Table 3

Income and Expense Ratios for Mutual Savings Banks, by Deposit Size, 1978

(In per cent)

Item	Deposit size (in millions of dollars)								
	Total	Less than 25.0	25.0 to 49.9	50.0 to 99.9	100.0 to 249.9	250.0 to 499.9	500.0 to 999.9	1,000.0 to 1,999.9	2,000.0 or more
Ratios to total assets:									
Total operating income	7.72	8.05	8.04	8.00	7.88	7.76	7.70	7.74	7.53
Total operating expenses and taxes	1.54	1.90	1.81	1.75	1.72	1.60	1.61	1.60	1.23
Interest paid depositors	5.56	5.32	5.38	5.46	5.41	5.47	5.46	5.62	5.75
Net operating income after expenses, taxes and interest	.63	.83	.84	.79	.75	.69	.63	.51	.56
Net realized gains or losses	-.04	-.08	-.08	-.03	-.05	-.10	-.05	.02	-.06
Retained earnings	.58	.75	.76	.76	.71	.59	.58	.53	.50
Ratios to total deposits:									
Interest paid depositors	6.13	5.87	5.95	6.03	5.98	6.03	6.03	6.23	6.31
Retained earnings	.64	.83	.84	.83	.78	.65	.64	.59	.54
Ratios to securities held:									
Interest on U.S. Government and agency securities†	7.67	7.44	7.40	7.36	7.43	7.42	7.66	7.86	7.77
Interest and dividends on other securities†	7.61	8.17	7.89	7.66	7.50	7.49	7.43	7.50	7.75
Interest and dividends on total securities†	7.63	7.78	7.68	7.53	7.47	7.45	7.52	7.66	7.75
Net realized gains or losses on total securities†	-.10	-.07	-.22	-.09	-.07	-.27	-.04	.03	-.17
Ratios to mortgage loans:									
Net interest and discount on mortgage loans†	7.90	8.46	8.49	8.44	8.20	8.13	7.91	7.86	7.57
Net realized gain or loss†	-.03	-.01	-.01	-.01	-.01	-.02	-.02	-.03	-.02

†Ratios are computed on basis of data from states other than Massachusetts.

NOTE: Data are preliminary.

NOTE: See note to Table 2.

Source: National Association of Mutual Savings Banks.

DEPOSIT ACTIVITY IN REGULAR ACCOUNTS IN MUTUAL SAVINGS BANKS

(Amounts in millions of dollars, accounts in thousands)

Period	Amounts Deposited	Withdrawals	Net change in deposits			Number of accounts	
			Excluding interest	Including interest		Total	Net Change
				Amt.	%		
Annually							
1975	53,125	48,369	4,757	11,070	11.27	26,284	980
1976	62,429	57,147	5,283	12,269	11.23	27,533	1,151
1977	73,306	70,431	2,874	10,687	8.76	28,825	1,303
1978	91,967	92,558	—591	7,697	5.80	30,472	1,647
Monthly							
1978—Aug.	7,613	7,688	—75	260	.19	29,905	78
Sept.	7,126	7,167	—41	1,354	.98	29,995	85
Oct.	8,990	8,942	48	354	.25	30,050	55
Nov.	8,061	8,121	—59	275	.20	30,255	205
Dec.	9,115	9,520	—405	1,213	.87	30,472	217
1979—Jan.	12,303	12,421	—118	218	.15	30,661	190
Feb.	7,179	6,837	342	682	.48	30,797	135
Mar.	9,350	8,887	463	1,972	1.39	30,871	74
Apr.	10,196	11,388	—1,192	—818	—.57	n.a.	n.a.
May	9,007	9,348	—341	61	.04	n.a.	n.a.
June	9,691	10,340	—649	890	.62	n.a.	n.a.
July	12,494	13,208	—714	318	.22	n.a.	n.a.
Aug. (Est.)	n.a.	n.a.	—500	—100	—.07	n.a.	n.a.

n.a.—not available. Est.—estimated.

Notes: Annual and monthly data for net change in deposits including interest and net change in number of accounts have been adjusted, where necessary, to exclude the effects of conversions and consolidations of savings banks and other types of institutions. Amounts deposited and withdrawals include shifts of funds between ordinary and time and other higher-yield accounts. Components may not add to totals due to rounding. Source: National Association of Mutual Savings Banks.

ASSETS AND LIABILITIES OF ALL MUTUAL SAVINGS BANKS

(Amounts in millions of dollars)

Date	Mortgages	GNMAs	Investments				Other assets	Total assets-Total liabilities & gen. res. accts.	Deposits			Other liabilities	General reserve accounts
			U.S. Govt. & Federal agencies	State & local Govt.	Corporate bonds	Corporate stocks			Total*	Savings	Time		
1975 Dec. 31	77,221	3,367	7,507	1,545	17,536	4,322	9,558	121,056	109,873	69,653	39,639	2,755	8,428
1976 Dec. 31	81,630	5,808	9,109	2,417	20,335	4,381	11,131	134,812	122,877	74,535	47,426	2,884	9,052
1977 Dec. 31	88,195	8,331	9,233	2,828	21,498	4,751	12,450	147,287	134,017	78,005	54,739	3,292	9,978
1978 Aug. 31	92,866	9,540	8,602	3,098	21,845	4,816	14,444	155,210	139,308	75,578	62,112	5,247	10,654
Sept. 30	93,403	9,742	8,631	3,180	21,657	4,781	14,717	156,110	140,816	75,423	63,645	4,569	10,725
Oct. 31	93,903	9,761	8,540	3,190	21,670	4,785	14,995	156,843	141,026	74,124	65,298	5,041	10,777
Nov. 30	94,497	9,820	8,437	3,307	21,633	4,824	14,916	157,436	141,155	72,398	67,299	5,411	10,870
Dec. 31	95,157	10,021	8,297	3,333	21,566	4,807	14,991	158,174	142,701	71,816	69,354	4,565	10,907
1979 Jan. 31	95,552	10,230	8,178	3,328	21,622	4,815	15,167	158,892	142,879	69,244	72,145	5,032	10,980
Feb. 28	95,821	10,492	8,114	3,167	21,665	4,837	15,983	160,078	143,539	68,817	73,254	5,485	11,054
Mar. 31	96,136	10,669	8,187	3,126	21,767	4,849	17,132	161,866	145,650	68,829	75,213	5,048	11,167
Apr. 30	95,900	11,011	8,193	3,326	21,331	4,869	16,602	161,231	145,096	67,758	75,452	5,050	11,084
May 31	96,239	11,168	8,148	3,264	21,249	4,887	16,426	161,380	145,056	67,577	75,694	5,172	11,153
June 30	96,743	11,230	8,029	3,175	21,174	4,877	16,586	161,814	146,057	68,104	76,057	4,545	11,212
July 31	97,238	11,275	7,992	3,154	20,994	4,902	17,042	162,598	145,757	67,537	76,306	5,577	11,264
Aug. 31 (Est.)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	145,607	n.a.	n.a.	n.a.	n.a.
% of Total Assets													
June 31, 1979	59.8	6.9	4.9	1.9	12.9	3.0	10.5	100.0	89.6	41.5	46.9	3.4	6.9
Change during month	495	45	—36	—21	—180	25	456	783	—300	—567	249	1,032	51

Note: Balance sheet data beginning with April 30, 1979 are not strictly comparable with prior months. This largely reflects: (1) changes in FDIC reporting procedures; and (2) reclassification of certain items.

n.a.—not available. Est.—estimated. Source: National Association of Mutual Savings Banks.

* — Total deposit figures include checking, school, club and certain other accounts not shown separately.

Note: GNMA figures refer to all types of mortgage-backed securities guaranteed by the Government National Mortgage Association.

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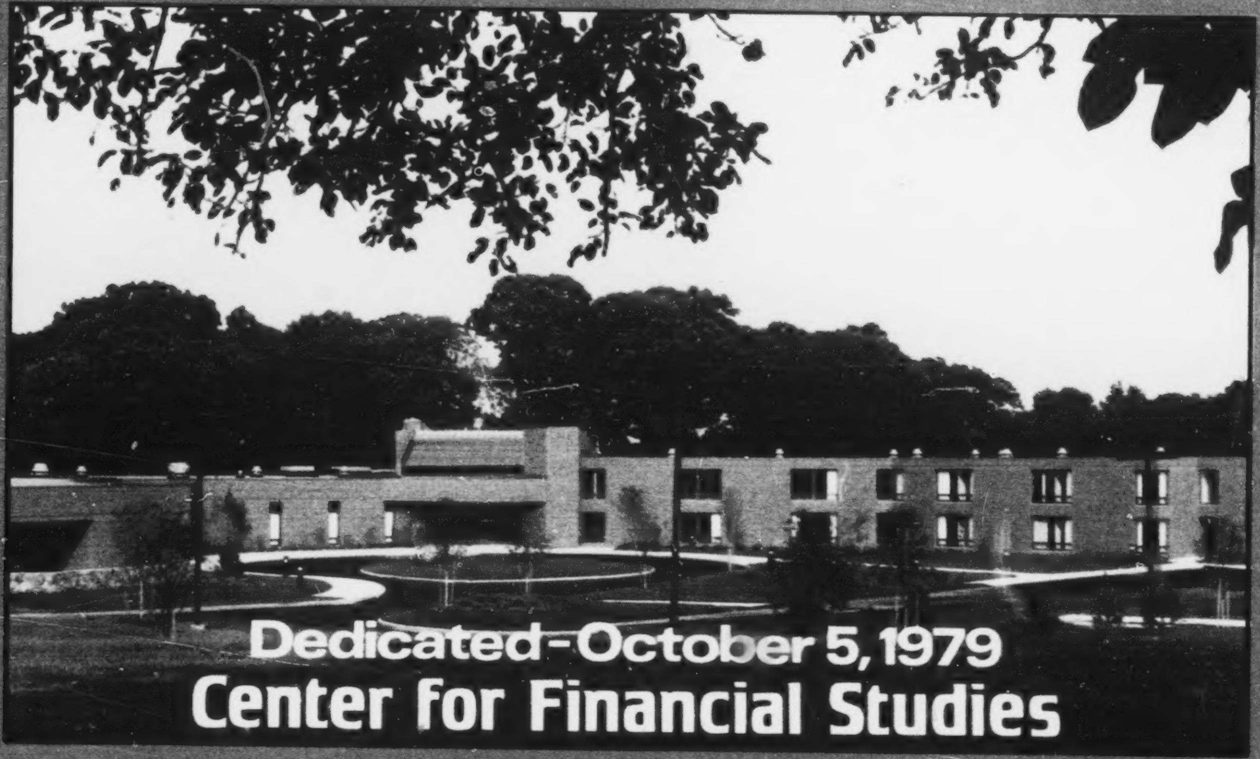

Dedicated-October 5, 1979

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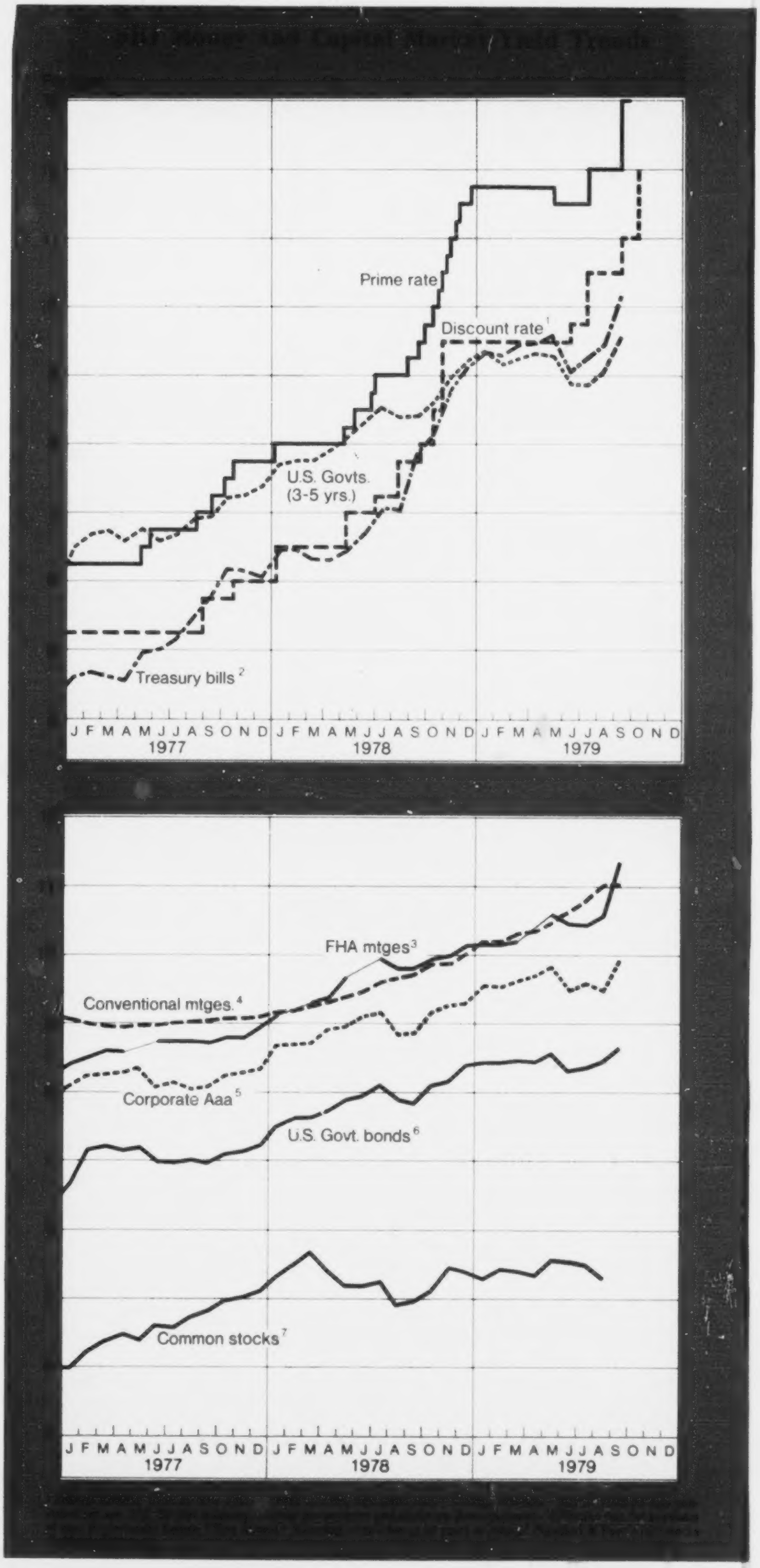

[illegible] Money and Capital Market Yield Trends

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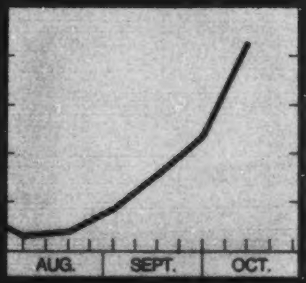
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DEPOSIT ACTIVITY IN REGULAR ACCOUNTS IN MUTUAL SAVINGS BANKS,[1] BY STATES

(Amounts in thousands of dollars)

State	August 1979					August 1978				
	Amounts Deposited[2]	With-drawals	Net Change in Deposits			Amounts Deposited[2]	With-drawals	Net Change in Deposits		
			Excluding Interest	Incl. Interest				Excluding Interest	Incl. Interest	
				Amt.	%				Amt.	%
Connecticut	862,058	889,157	—27,099	37,122	.30	655,891	638,586	17,305	73,049	.63
Indiana	13,306	12,364	942	735	.33	9,767	10,169	—402	168	.08
Maine	227,196	225,253	1,943	15,721	.69	144,251	137,219	7,032	16,457	.77
Maryland	88,030	93,981	—5,951	—1,208	—.08	61,304	60,944	360	4,370	.33
Massachusetts	1,885,537	1,950,366	—64,829	41,598	.20	1,393,206	1,432,777	—39,571	55,673	.28
New Hampshire	229,817	227,088	2,729	16,182	.71	184,301	175,977	8,324	20,097	.94
New Jersey	563,841	591,943	—28,102	12,527	.16	477,733	460,920	16,813	50,429	.70
New York—City	2,686,056	3,022,792	—336,736	—299,616	—.55	2,260,116	2,373,428	—113,312	—74,402	—.14
—Upstate	1,422,846	1,473,300	—50,454	5,531	.03	953,853	937,194	16,659	59,074	.29
Pennsylvania	1,102,175	1,102,895	—720	38,566	.33	893,046	894,235	—1,189	31,376	.29
Rhode Island	112,641	112,383	258	6,053	.39	95,414	95,555	—141	4,734	.32
Vermont	72,131	65,302	6,829	9,318	1.22	56,707	49,377	7,330	8,981	1.29
Washington	332,660	343,238	—10,578	—5,448	—.15	254,671	242,712	11,959	13,071	.37
Wisconsin	4,058	4,148	—90	—7	—.01	2,577	2,511	66	114	.16
All other states	222,457	214,790	7,667	11,012	.49	170,550	176,319	—5,769	—3,136	—.15
Total	9,824,809	10,329,000	—504,191	—111,914	—.08	7,613,387	7,687,923	—74,536	260,055	.19

Note: See notes to "Assets and Liabilities of All Mutual Savings Banks."

[1] Excludes special purpose accounts such as checking, Christmas, vacation and school.

[2] Excludes interest credited.

Source: National Association of Mutual Savings Banks.

DEPOSIT ACTIVITY IN REGULAR ACCOUNTS IN MUTUAL SAVINGS BANKS

(Amounts in millions of dollars, accounts in thousands)

Period	Amounts Deposited	With-drawals	Net change in deposits			Number of accounts	
			Excluding interest	Including interest		Total	Net Change
				Amt.	%		
Annually							
1975	53,125	48,369	4,757	11,070	11.27	26,284	980
1976	62,429	57,147	5,283	12,269	11.23	27,533	1,151
1977	73,306	70,431	2,874	10,687	8.76	28,825	1,303
1978	91,967	92,558	—591	7,697	5.80	30,472	1,647
Monthly							
1978—Sept.	7,126	7,167	—41	1,354	.98	29,995	85
Oct.	8,990	8,942	48	354	.25	30,050	55
Nov.	8,061	8,121	—59	275	.20	30,255	205
Dec.	9,115	9,520	—405	1,213	.87	30,472	217
1979—Jan.	12,303	12,421	—118	218	.15	30,661	190
Feb.	7,179	6,837	342	682	.48	30,797	135
Mar.	9,350	8,887	463	1,972	1.39	30,871	74
Apr.	10,196	11,388	—1,192	—818	—.57	n.a.	n.a.
May	9,007	9,348	—341	61	.04	n.a.	n.a.
June	9,691	10,340	—649	890	.62	n.a.	n.a.
July	12,494	13,208	—714	318	.22	n.a.	n.a.
Aug.	9,825	10,329	—504	—112	—.08	n.a.	n.a.
Sept. (Est.)	n.a.	n.a.	—1000	600	.42	n.a.	n.a.

n.a.—not available. Est.—estimated.

Notes: Annual and monthly data for net change in deposits including interest and net change in number of accounts have been adjusted, where necessary, to exclude the effects of conversions and consolidations of savings banks and other types of institutions. Amounts deposited and withdrawals include shifts of funds between ordinary and time and other higher-yield accounts. Components may not add to totals due to rounding. Source: National Association of Mutual Savings Banks.

ASSETS AND LIABILITIES OF ALL MUTUAL SAVINGS BANKS

(Amounts in millions of dollars)

Date	Mortgages	GNMAs	Investments				Other assets	Total assets-Total liabilities & gen. res. accts.	Deposits			Other liabil-ities	General reserve accounts
			U.S. Govt. & Federal agencies	State & local Govt.	Corpo-rate bonds	Corpo-rate stocks			Total*	Savings	Time		
1975 Dec. 31	77,221	3,367	7,507	1,545	17,536	4,322	9,558	121,056	109,873	69,653	39,639	2,755	8,428
1976 Dec. 31	81,630	5,808	9,109	2,417	20,335	4,381	11,131	134,812	122,877	74,535	47,426	2,884	9,052
1977 Dec. 31	88,195	8,331	9,233	2,828	21,498	4,751	12,450	147,287	134,017	78,005	54,739	3,292	9,978
1978 Sept. 30	93,403	9,742	8,631	3,180	21,657	4,781	14,717	156,110	140,816	75,423	63,645	4,569	10,725
Oct. 31	93,903	9,761	8,540	3,190	21,670	4,785	14,995	156,843	141,026	74,124	65,298	5,041	10,777
Nov. 30	94,497	9,820	8,437	3,307	21,633	4,824	14,916	157,436	141,155	72,398	67,299	5,411	10,870
Dec. 31	95,157	10,021	8,297	3,333	21,566	4,807	14,991	158,174	142,701	71,816	69,354	4,565	10,907
1979 Jan. 31	95,552	10,230	8,178	3,328	21,622	4,815	15,167	158,892	142,879	69,244	72,145	5,032	10,980
Feb. 28	95,821	10,492	8,114	3,167	21,665	4,837	15,983	160,078	143,539	68,817	73,254	5,485	11,054
Mar. 31	96,136	10,669	8,187	3,126	21,767	4,849	17,132	161,866	145,650	68,829	75,213	5,048	11,167
Apr. 30	95,900	11,011	8,193	3,326	21,331	4,869	16,602	161,231	145,096	67,758	75,452	5,050	11,084
May 31	96,239	11,168	8,148	3,264	21,249	4,887	16,426	161,380	145,056	67,577	75,694	5,172	11,153
June 30	96,743	11,230	8,029	3,175	21,174	4,877	16,586	161,814	146,057	68,104	76,057	4,545	11,212
July 31	97,238	11,275	7,992	3,154	20,994	4,902	17,042	162,598	145,757	67,537	76,306	5,577	11,264
Aug. 31	97,259	11,341	7,921	3,149	20,924	4,861	17,933	163,388	145,713	66,733	76,998	6,350	11,324
Sept. 30 (Est.)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	146,463	n.a.	n.a.	n.a.	n.a.
% of Total Assets													
August 31, 1979	59.5	6.9	4.8	1.9	12.8	3.0	11.0	100.0	89.2	40.8	47.1	3.9	6.9
Change during month	21	66	—72	—5	—70	—41	891	790	—43	—804	692	772	61

Note: Balance sheet data beginning with April 30, 1979 are not strictly comparable with prior months. This largely reflects: (1) changes in FDIC reporting procedures; and (2) reclassification of certain items.

n.a.—not available. Est.—estimated. Source: National Association of Mutual Savings Banks.

* — Total deposit figures include checking, school, club and certain other accounts not shown separately.

Note: GNMA figures refer to all types of mortgage-backed securities guaranteed by the Government National Mortgage Association.

Savings Bank Journal

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Volume 60 December 1979 Number 10

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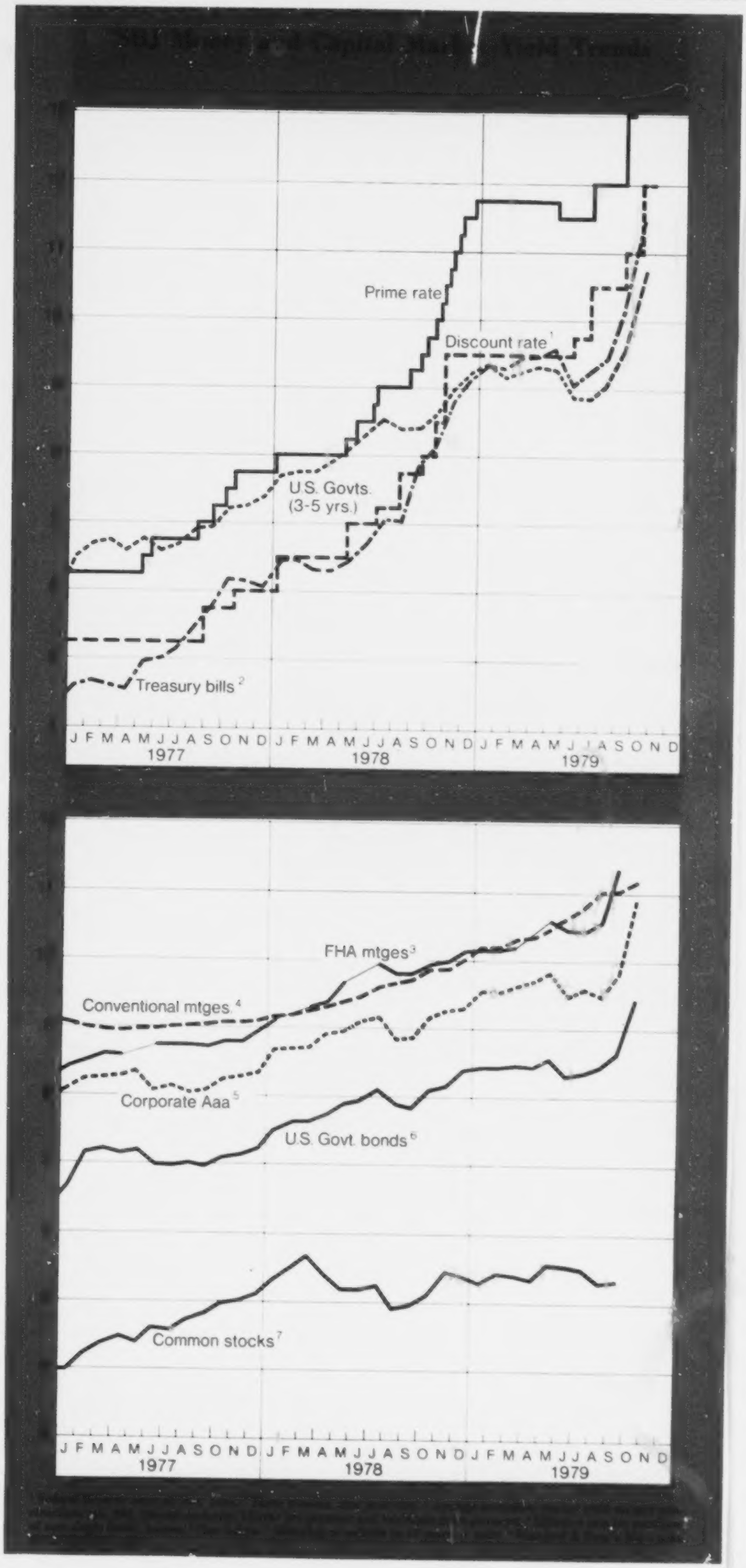
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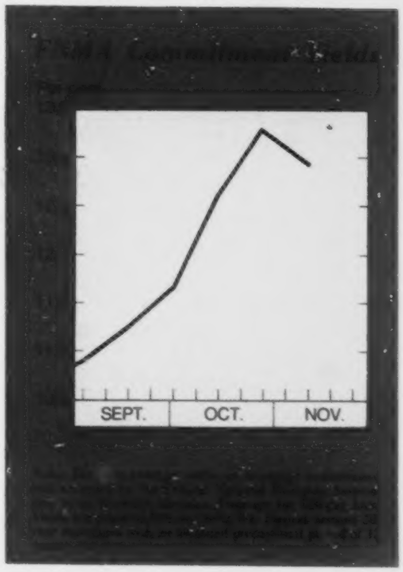

FNMA Commitment Yields

DEPOSIT ACTIVITY IN REGULAR ACCOUNTS IN MUTUAL SAVINGS BANKS,[1] BY STATES

(Amounts in thousands of dollars)

State	September 1979					September 1978				
	Amounts Deposited[2]	With-drawals	Net Change in Deposits			Amounts Deposited[2]	With-drawals	Net Change in Deposits		
			Excluding Interest	Incl. Interest				Excluding Interest	Incl. Interest	
				Amt.	%				Amt.	%
Connecticut	828,812	899,963	—71,151	—378	*	638,638	614,121	24,517	82,821	.70
Indiana	11,448	11,781	—333	1,275	.58	6,880	6,777	103	1,725	.82
Maine	196,781	209,755	—12,974	229	.01	128,772	130,952	—2,180	9,904	.46
Maryland	86,702	78,611	8,091	18,104	1.27	59,212	55,016	4,196	6,479	.49
Massachusetts	1,640,232	1,793,203	—152,971	—47,764	—.23	1,348,070	1,344,346	3,724	99,235	.50
New Hampshire	202,514	214,070	—11,556	204	.01	170,016	159,881	10,135	20,547	.95
New Jersey	528,288	559,928	—31,640	14,504	.18	415,938	408,604	7,334	49,289	.68
New York—City	2,592,146	3,135,431	—543,285	261,106	.48	2,133,398	2,256,066	—122,668	607,338	1.14
—Upstate	1,236,727	1,371,802	—135,075	163,867	.74	897,781	916,517	—18,736	248,951	1.20
Pennsylvania	932,870	994,027	—61,157	37,550	.32	823,966	770,714	53,252	137,933	1.27
Rhode Island	90,309	98,701	—8,392	4,571	.29	74,074	74,367	—293	12,514	.85
Vermont	48,516	55,965	—7,449	209	.03	43,639	37,645	5,994	13,373	1.90
Washington	328,165	350,256	—22,091	36,632	.99	227,645	231,256	—3,611	50,792	1.44
Wisconsin	5,640	5,073	567	1,080	1.49	2,894	3,023	—129	613	.86
All other states	191,042	212,880	—21,838	—6,707	—.29	154,619	157,742	—3,123	12,579	.60
Total	8,920,192	9,991,446	—1,071,254	484,482	.34	7,125,542	7,167,027	—41,485	1,354,093	.98

Note: See notes to "Assets and Liabilities of All Mutual Savings Banks." [2] Excludes interest credited. *Less than .005%.

[1] Excludes special purpose accounts such as checking, Christmas, vacation and school. Source: National Association of Mutual Savings Banks.

DEPOSIT ACTIVITY IN REGULAR ACCOUNTS IN MUTUAL SAVINGS BANKS

(Amounts in millions of dollars, accounts in thousands)

Period	Amounts Deposited	With-drawals	Net change in deposits			Number of accounts	
			Excluding interest	Including interest		Total	Net Change
				Amt.	%		
Annually							
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1976	62,429	57,147	5,283	12,269	11.23	27,533	1,151
1977	73,306	70,431	2,874	10,687	8.76	28,825	1,303
1978	91,967	92,558	—591	7,697	5.80	30,472	1,647
Monthly							
1978—Oct.	8,990	8,942	48	354	.25	30,050	55
Nov.	8,061	8,121	—59	275	.20	30,255	205
Dec.	9,115	9,520	—405	1,213	.87	30,472	217
1979--Jan.	12,303	12,421	—118	218	.15	30,661	190
Feb.	7,179	6,837	342	682	.48	30,797	135
Mar.	9,350	8,887	463	1,972	1.39	30,871	74
Apr.	10,196	11,388	—1,192	—818	—.57	n.a.	n.a.
May	9,007	9,348	—341	61	.04	n.a.	n.a.
June	9,691	10,340	—649	890	.62	n.a.	n.a.
July	12,494	13,208	—714	318	.22	n.a.	n.a.
Aug.	9,825	10,329	—504	—112	—.08	n.a.	n.a.
Sept.	8,920	9,991	—1,071	484	.34	n.a.	n.a.
Oct. (Est.)	n.a.	n.a.	—1,400	—1,000	—.69	n.a.	n.a.

n.a.—not available. Est.—estimated.

Notes: Annual and monthly data for net change in deposits including interest and net change in number of accounts have been adjusted, where necessary, to exclude the effects of conversions and consolidations of savings banks and other types of institutions. Amounts deposited and withdrawals include shifts of funds between ordinary and time and other higher-yield accounts. Components may not add to totals due to rounding. Source: National Association of Mutual Savings Banks.

ASSETS AND LIABILITIES OF ALL MUTUAL SAVINGS BANKS

(Amounts in millions of dollars)

Date	Mortgages	GNMAs	Investments				Other assets	Total assets-Total liabilities & gen. res. accts.	Deposits			Other liabil-ities	General reserve accounts
			U.S. Govt. & Federal agencies	State & local Govt.	Corpo-rate bonds	Corpo-rate stocks			Total*	Savings	Time		
1975 Dec. 31	77,221	3,367	7,507	1,545	17,536	4,322	9,558	121,056	109,873	69,653	39,639	2,755	8,428
1976 Dec. 31	81,630	5,808	9,109	2,417	20,335	4,381	11,131	134,812	122,877	74,535	47,426	2,884	9,052
1977 Dec. 31	88,195	8,331	9,233	2,828	21,498	4,751	12,450	147,287	134,017	78,005	54,739	3,292	9,978
1978 Oct. 31	93,903	9,761	8,540	3,190	21,670	4,785	14,995	156,843	141,026	74,124	65,298	5,041	10,777
Nov. 30	94,497	9,820	8,437	3,307	21,633	4,824	14,916	157,436	141,155	72,398	67,299	5,411	10,870
Dec. 31	95,157	10,021	8,297	3,333	21,566	4,807	14,991	158,174	142,701	71,816	69,354	4,565	10,907
1979 Jan. 31	95,552	10,230	8,178	3,328	21,622	4,815	15,167	158,892	142,879	69,244	72,145	5,032	10,980
Feb. 28	95,821	10,492	8,114	3,167	21,665	4,837	15,983	160,078	143,539	68,817	73,254	5,485	11,054
Mar. 31	96,136	10,669	8,187	3,126	21,767	4,849	17,132	161,866	145,650	68,829	75,213	5,048	11,167
Apr. 30	95,900	11,011	8,193	3,326	21,331	4,869	16,602	161,231	145,096	67,758	75,452	5,050	11,084
May 31	96,239	11,168	8,148	3,264	21,249	4,887	16,426	161,380	145,056	67,577	75,694	5,172	11,153
June 30	96,743	11,230	8,029	3,175	21,174	4,877	16,586	161,814	146,057	68,104	76,057	4,545	11,212
July 31	97,238	11,275	7,992	3,154	20,994	4,902	17,042	162,598	145,757	67,537	76,306	5,577	11,264
Aug. 31	97,259	11,341	7,921	3,149	20,924	4,861	17,933	163,388	145,713	66,733	76,998	6,350	11,324
Sept. 30	97,973	11,422	7,891	3,150	20,835	4,819	17,341	163,431	146,252	65,676	78,572	5,791	11,388
Oct. 31 (Est.)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	145,102	n.a.	n.a.	n.a.	n.a.
% of Total Assets													
September 30, 1979	59.9	7.0	4.8	1.9	12.7	2.9	10.6	100.0	89.5	40.2	48.1	3.5	7.0
Change during month	303	80	—31	1	—69	—61	—218	6	505	—1,072	1,556	—561	62

Note: Balance sheet data beginning with April 30, 1979 are not strictly comparable with prior months. This largely reflects: (1) changes in FDIC reporting procedures; and (2) reclassification of certain items.

n.a.—not available. Est.—estimated. Source: National Association of Mutual Savings Banks.

* — Total deposit figures include checking, school, club and certain other accounts not shown separately.

Note: GNMA figures refer to all types of mortgage-backed securities guaranteed by the Government National Mortgage Association.

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Volume 60 January 1980 Number 11

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For Economy, Savings Banking

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Savings Bank Journal
January 1980 Volume 60

From the NAMSB Staff—

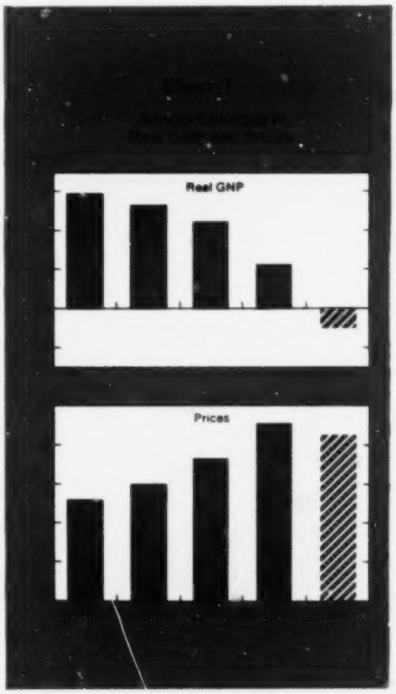
OUTLOOK for the ECONOMY and for SAVINGS BANKING in 1980

By year-end 1979 standards, the financial climate in 1980 should be somewhat less unfavorable for savings bank deposit flows, in the context of an economic recession and moderating interest rate pressures . . . according to the review and forecast of national trends and savings bank prospects developed by the NAMSB staff and reported during the Midyear Meeting by Senior Vice President and Chief Economist George Hanc.

CONFIDENCE—OR RATHER its absence—this is what first comes to mind in considering economic developments in 1979. During the past year, our nation's ability to deal effectively with its economic problems has been severely questioned. And as government economic policymakers grappled unconvincingly with the inflation problem, an already hostile environment for savings banking worsened further.

Lack of confidence in the effectiveness of our anti-inflation effort was clear from many signs. At home, more and more families decided to buy now and worry later. Consumer borrowing escalated, the personal saving rate sank, and a flight from cash to goods appeared to be developing. Abroad, gold soared, the dollar plunged, speculation mounted and chaotic conditions in financial markets threatened. To some observers, we seemed to be caught in a vicious circle of oil price hikes, domestic inflation and dollar weakness, with government economic policymakers standing helplessly by.

In this atmosphere, the October 6 Federal Reserve bombshell has both painful and promising implications for the economy and for savings banking. The pain was evident and immediate. Interest rates have gyrated wildly in an inherently more unpredictable climate, while both the Fed and the rest of the world searched for the new ground rules governing the post-October 6 monetary regime.



The promise, while of a longer-run nature, is no less real. The new Federal Reserve policy represents one of several steps essential to an eventual reduction in inflation and inflationary expectations. The action involves risks and will hardly solve the inflation problem by itself. But assuming that the Fed sticks to its guns, monetary expansion should be brought under better control and a lower interest rate structure should be achieved sooner than would otherwise have been possible.

The problem for savings banking, however, is how to get over the hump. How do we get from here to there, from the painful problems of the short-run to the promised land of greater financial market stability in the long-run? That the industry will successfully make it, there can be no doubt. Steering the proper course in this environment, however, will take more than usual resourcefulness on the part of management.

In planning their future operations, savings bankers may find it useful to consider our projections for the economy and for the savings banking industry in 1980. Next year, we expect that:

Economic Outlook 1980—

- The economy will be in recession.
- Inflation will moderate, but to a degree scarcely noticeable by shoppers.
- Interest rates will come down from the stratosphere, but will still remain high.
- Housing activity will decline sharply.
- The savings bank industry will experience further disintermediation, but outflows will moderate as the year progresses.
- Net income positions will deteriorate further for the year as a whole.

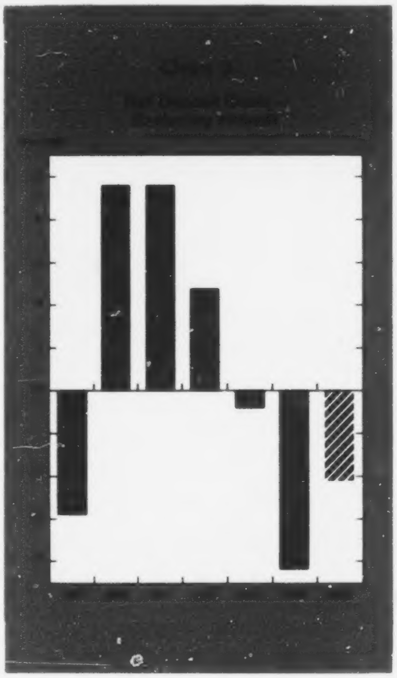
The Economy in Recession

The recession in 1980 will go down in the record books as one of the most thoroughly anticipated and pre-advertised in history (Chart 1). For over a year, some forecasters have been proclaiming that the economy would momentarily be in recession. Actually, the economy has held up pretty well. Among the important factors were: backlogs of demand from the severe 1974-75 decline; the inflation-induced spending psychology of consumers; the surprising strength of housing; fairly strong capital spending; reduced vulnerability to contraction because of generally conservative business inventory policies; and the continued availability of credit, albeit at high interest rates.

In 1980, however, we project that real GNP will decline by about 1% for the year as a whole, compared with the 2% rise in 1979. The reasons for expecting that 1980 will be a recession year include the following:

- Interest rates finally exceed inflation and have more bite.
- Credit is likely to be unavailable, outright, to some borrowers, particularly home buyers and poorer business risks.
- Further energy cost increases will have another depressing impact.
- Spending by consumers will slacken because real, after-tax incomes are declining and many families have depleted their savings and are up to their ears in debt.
- Housing activity will decline.
- Business inventory investment and capital spending will be trimmed back in response to slower sales.

To be sure, an election-year tax cut may cushion the impact. Pressures for a tax cut will mount as the unemployment rate rises toward 8%. Further impetus will come from a desire to offset scheduled Social Security tax increases and to relieve taxpayers being pushed by inflation into higher income tax brackets. But the tax stimulus is unlikely to prevent a recession next year.



Actually, the main debate among forecasters is not whether there will be a recession in 1980. This is virtually guaranteed, in the view of many, by the October 6 Federal Reserve policy change and its implementation in coming months. The main questions concern the length, duration and shape of the recession. Will it be deep or shallow, brief or prolonged? Will it be shaped like a "V" or a "U"?

We are inclined to the view that the recession will be moderate but prolonged during much of 1980. There is enough latent strength in the economy to prevent a sharper decline. But the prospect of a quick and vigorous snap-back seems unlikely. In particular, the intractable nature of inflation sets limits on the ability of government policy to take decisive anti-recessionary action. Fighting inflation, after all, is good politics, as well as good economics.

Inflation: Not Much Improvement

Even so, not much improvement can be expected on the inflation front next year (Chart 1). We expect only modest improvement from the 1979 annual price rise of about 9% on a comprehensive GNP deflator basis. On the basis of monthly changes in the consumer price index, we can see a decline from the recent 12% to 13% annual rate, but it will be hard to get below 10% in 1980. Thus, we project that inflation will moderate during the course of the year, in response to the recession and the Federal Reserve moves, but the improvement will be small.

Indeed, any major improvement in the inflation rate next year will require some luck. Productivity has been declining. Labor costs are likely to accelerate next year, despite the efforts of the new Pay Advisory Committee, because of catch-up demands and hefty wage contracts in some major industries. The underlying inflation rate has been rising. We will need good luck, therefore, to achieve material improvement—good luck regarding food, weather, the size of OPEC oil price hikes and the absence of new external shocks like the upheaval in Iran.

In addition to luck, we will need firmness on the part of the Administration and the Congress in resisting the temptation to open the budgetary floodgates in an election year. This could easily swamp the new Federal Reserve initiative and send us back to square one in the anti-inflation fight.

For it must be repeated that the new Federal Reserve policies are only one of several steps needed to bring inflation and inflationary expectations under control. Some of the others are: continued progress toward the long-run goal of a more balanced federal budget; avoidance of illusory "solutions" like wage-price controls; a convincing energy program; and tax incentives to stimulate saving, investment and productivity. With respect to the latter, there appears to be growing sentiment that "something should be done" about our low saving rate and declining productivity. Tax action in

Notes on Outlook Charts

On GNP .... Changes in real gross national product represent annual percentage changes in gross national product, measured in constant 1972 dollars and percentage changes in the implicit price deflator for total GNP. (see page 27).

On net deposit change .... Annual percentage changes, excluding interest

this area is a distinct possibility next year.

Housing: the Chief Victim

Housing will be the chief victim of the Federal Reserve's new policy. We anticipate that housing starts will decline from 1.7 million units this year to about 1.3 million in 1980. Single-family starts will bear the brunt of the decline. Multifamily construction will also decrease, although federally subsidized activity should cushion the adverse impact of the mortgage squeeze in this sector.

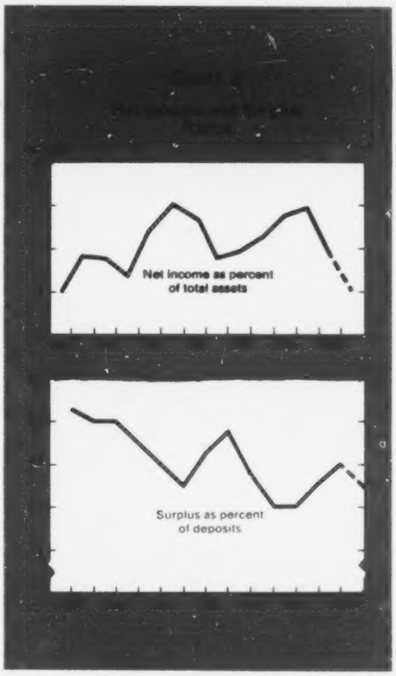
Resale activity will also be hit as existing homes will become harder to sell in a climate of tighter mortgage credit. Asking prices on existing homes will have to be lowered in many cases and we may see an appreciable slackening in the uptrend in home prices. Reduced resale activity, in turn, will have a feedback effect on new construction, since equities in older homes have been a major factor in meeting the escalating prices of newly built units.

The prime reason for the expected housing decline, of course, is the developing shortage and increased cost of mortgage credit. In the current deposit climate, thrift institutions have pushed liquidity higher up on the priority list and many have shut the mortgage window. Increased money costs in the face of usury ceilings are also restricting mortgage flows in many cases.

From the standpoint of borrowers, rising interest costs and increases in other home-ownership expenses are obvious negative factors. Builders are being squeezed, moreover, by construction loan costs in the upper teens. And once the recession gets rolling, housing demands are likely to slip, as unemployment increases and some consumers pull back from major new expenditures.

All of this may seem like a dismal rerun of past tight money periods, but there are differences:

- First, housing entered the current tight money cycle in better shape than, for example, in 1973-74. This time around, we started without the widespread overbuilding that plagued the early 1970s. Housing demands have been especially strong, moreover, reflecting favorable demographics, inflation-hedging and other factors.



credited, in savings and time deposits at mutual savings banks.
On net income . . . . Data refer to: 1. net income of mutual savings banks after expenses, taxes, interest and net realized losses or gains on assets as a percent of average of beginning, mid- and end-of-year assets; and 2. surplus accounts, including capital notes and debentures, as a percent of year-end deposits outstanding.

- Second, the mortgage finance system has been significantly strengthened in recent years.

With respect to the latter, net mortgage flows from the main institutional sources held up surprisingly well during 1978 and in the early part of 1979, despite the rising interest rate climate. Some observers have given high marks to the six-month money market CDs for this achievement. Savings bank experience indicates, however, that these instruments merely postponed, but did not avert, the classic pattern of thrift institution disintermediation and sharp mortgage lending cutbacks in high interest rate periods.

Perhaps more important have been various factors which have stimulated increased mortgage lending from "nontraditional" sources. Secondary mortgage markets have been improved and mortgage-backed securities have proliferated. Of basic importance is the fact that mortgage yields in secondary markets (as measured by FNMA auction prices) have exceeded corporate bond yields by a wide margin. This was in sharp contrast with the negative mortgage-bond yield spreads which prevailed frequently in the 1974-75 period. Attractive mortgage yields outside of usury-restricted areas reflected, in turn, the basic strength of housing demands.

Whether these factors will be as important in 1980 is uncertain and a major reason for unusually wide variations in housing forecasts. But once more orderly market conditions are established, mortgage-backed securities should help cushion the decline in areas where rates on the underlying mortgages are attractive. There may also be further federal initiatives on top of moves already taken by the FHLBB. In some states, usury ceilings will be adjusted to market realities. And thrift institutions, to the extent permitted by legal authority and earnings positions, will make use of an increasingly wide array of nondeposit borrowings. All of these factors provide hope that the housing decline will be kept within the bounds suggested earlier.

Interest Rates

And now, at last, we come to the subject of market interest rates. By way of background, it will be recalled that on October 6 the Federal Reserve:

1. raised the discount rate from 11% to 12%;
2. imposed an 8% marginal reserve requirement on commercial bank "managed liabilities"; and
3. shifted the emphasis of day-to-day operations from controlling the federal funds rate to regulating commercial bank reserves and the money supply.

The clear implication was that the Federal Reserve would tolerate higher and more volatile interest rates, while it sought to restrict monetary and credit growth. A further implication is that once monetary expansion is under control, interest rates could decline as rapidly as they rose. This has been amply borne out by events since October 6. Interest rates rose by 200 to 300 basis points in a matter of weeks, fluctuated widely, and declined more recently. The obvious question is: what comes next?

You wait in vain, if you expect a confident and definitive answer. We are groping in the dark in uncharted territory. The Fed itself must feel its way in the new environment. Its actions will be heavily affected, moreover, by international developments, as well as by the performance of the domestic economy and financial markets. As the October 6 action suggested, Washington is not the only place where U. S. economic policy is ultimately determined.

Having said that the task of forecasting interest rates is impossible, let us now forecast interest rates. We hazard the following guesses:

1. Interest rates will resume their upward path, reversing recent declines. Given their extreme volatility, short-term open-market rates could easily rise above recent levels by 100 basis points or considerably more.

2. The cyclical turning point will come sometime in the early part of 1980.

3. Subsequently, interest rates will decline significantly as the recession unfolds, but inflation will prevent a decline to anywhere near previous recession lows. The prime rate should remain above 10% in 1980 and mortgage rates are unlikely to go below the 10%-11% area.

Deposit Prospects

In this projected interest rate climate, the immediate prospects for savings bank deposit growth are poor, although some improvement can be expected during the course of 1980. In 1979, of course, savings banks have been buffeted by deepening disintermediation, particularly since the March regulatory change reducing the attractiveness of six-month money market CDs at thrift institutions, and following the October 6 Federal Reserve action. The main competition has come from well-known sources. Money market mutual funds have grown at a phenomenal rate, exploiting their high yields, low minimum denominations and check-writing provisions. Meanwhile, with the thrift institution differential eliminated, commercial banks attracted a sharply increased share of money market CD growth after the first quarter of 1979.

Experience has varied enormously among different savings bank areas, as well as among different institutions. To a greater degree than in the past, Boston and New York City have borne the brunt of disintermediation in 1979. In these two areas, deposit outflows have been far larger, proportionately, than in all other areas combined, as well as considerably more prolonged. From the standpoint of deposit experience, these markets seem to be in a different world. But this should be of little comfort to savings banks in other areas. In future interest rate upswings, money market funds, commercial banks and a host of possible new competitors may push their way with full force into new market areas, if they are not there already.

Moderating Disintermediation

In 1980, we expect that the savings bank industry will experience another year of disintermediation (Chart 2). Outflows should slacken from the recent pace, however, as interest rates decline during the course of the year. Disintermediation should also taper off if the regulatory authorities take action to increase the attractiveness of six-month money market CDs by restoring the thrift institution differential. And in a climate of increased unemployment and economic uncertainty, the overall personal saving rate may improve from its recent low.

We project that deposit outflows next year will total about $3 billion, excluding interest, or one-half of the record $6 billion deposit loss in 1979. In percentage terms, the deposit outflow will be about 2% of outstanding deposits in 1980, down from more than 4% this year. Including interest credited to depositors' accounts, total deposit growth should amount to some $8.5 billion, compared with the $4 billion gain in 1979. As in 1979, experience will vary among different areas, with the particularly interest-sensitive markets faring more poorly than others.

Investment Policy

In this climate, strong liquidity is obviously a top management priority. In 1979, savings banks cut back their net mortgage acquisitions, as deposit trends worsened. The sharpest decline was in income-property lending. Single-family mortgage flows held up fairly well initially, before decreasing in response to enlarged deposit losses.

There was also a decline in liquid asset positions, as measured by holdings of cash and investments due in one year, net of borrowings and mortgage warehousing. Nevertheless, liquid asset positions at the end of September, while below a year ago, were still above the 1974 disintermediation period. Equally important, cash inflows from mortgage repayments, investment income and other sources were in a generally favorable relationship to outstanding mortgage commitments and deposit outflows.

Further pressure on liquidity positions has to be expected, as deposit outflows continue large in the immediate months ahead. Additional strain may come from slackened mortgage repayments, as resale activity in existing home markets slows down. It would clearly be in order to maintain strict control of investment commitments, to retest credit lines and to take all the other steps needed to ensure strong liquidity, if this has not already been done.

Further Earnings Deterioration

As for the bottom line, we anticipate that net income positions will weaken further in 1980 (Chart 3). This year, earnings held up surprisingly well during the first half of the year at most institutions and on an overall industry basis. First-half results were less favorable, however, in areas chronically subject to heavy disintermediation and/or low usury ceilings. In these areas, deposit costs may be especially high and savings banks have generally had few funds to invest during past high-interest-rate periods. Moreover, significant deterioration developed in most areas in the second half of the year, as deposit interest costs soared in a higher interest rate climate.

Next year, the earnings picture will be much the same, only more so. Net income will decline further as a result of:

1. the continuing rollover of six-month CDs at increased rates during the early part of the year;

2. further transfers from savings accounts to money-market certificates;

3. shifts from lower- to higher-cost time accounts in response to the relaxation in premature withdrawal penalties adopted by the regulators last July;

4. increased borrowing costs and bond losses undertaken to meet liquidity needs;

5. some slowdown in the rise in gross earnings as short-term rates decline later in the year; and

6. possible further changes in Reg. Q ceilings.

We project that bottom-line income for the industry as a whole will decline from about 40 basis points on average assets in 1979 to about 20 in 1980. As with other industrywide data, these figures mask wide variations among different areas and institutions. While some banks will have fairly strong earnings next year, others will show a negative bottom line, at least for part of the year.

Cites Needed Legislation

Although not welcome, this is scarcely the end of the world. The projected 20 basis points of net income on assets next year would match the industry's performance in 1967, an earlier period when earnings positions were under severe strain. It will not be the first time, moreover, that some savings banks show red ink on the bottom line. After all, what are surplus positions for, if not to provide a cushion for absorbing the temporary income losses that occur from extraordinary circumstances, like the current interest rate upsurge? Better than anything else, however, the earnings squeeze dramatizes the basic need for legislative action to eliminate archaic restrictions on branching, investment, service and borrowing authority that continue to hobble savings banks in some states.

Finally, the industrywide surplus-deposit ratio increased in 1979, mostly because of deposit outflows. Next year, however, some modest slippage in surplus ratios is expected, mainly due to reduced earnings.

Managing Disintermediation

In days gone by, a favorite subject at savings bank meetings was how to manage growth. That subject will be pertinent again in the future. For the time being, however, the more timely topic is how to manage disintermediation.

Managing disintermediation is unquestionably a lot less fun than managing growth. It is a necessary art, however, and one which many savings banks have been forced periodically to practice and to master. The pressures have increased since the first post-World War II disintermediation period in 1959. Awareness of the threat has also increased, however, and savings banks have prepared themselves well during intervening periods of growth.

In managing disintermediation, the most basic need, of course, is to run a tight ship. While always important, this is crucial in disintermediation periods. In periods of rapid growth, some loose ends may perhaps be tolerated. A less than ideal investment decision, for example, can easily be offset since deposits are pouring in. When deposits dry up, there is less margin for error and each management decision weighs more heavily. All aspects of the bank's operations must be focused on the primary needs to build earnings and conserve cash flows.

Running a tight ship includes having a strategy for dealing with the deposit outflows resulting from miserable economic weather. In principle, there are two approaches to handling protracted and large-scale disintermediation. First, the bank can let nature take its course, accepting temporary shrinkage through deposit losses. Second, the bank can borrow aggressively to offset deposit losses.

Two Strategies

The first approach—accepting temporary shrinkage—has merit and may be the only practical course in many cases. Under this approach, cash inflows from mortgage repayments and other sources are utilized to meet depositor withdrawals and existing commitments, while new commitments are shut off. Battening down the hatches in this manner has been a successful means of getting through bad times. The fact that the bank may be a little smaller at the end of the disintermediation period is unpleasant, but not exactly tragic. The real disadvantage is that the bank acquires less high-yield investments at the top of the interest rate cycle, thereby aggravating earnings problems in the future.

The second approach—aggressive borrowing to offset deposit losses—is practiced by many S&Ls. Potentially, there are numerous sources of non-deposit funds available for savings banks, including commercial bank and FHLB credit, mortgage-backed securities, security repurchase agreements, commercial paper and others. Aside from the necessary legal authority, major use of these options requires a strong earnings base to begin with, since borrowing costs are high. Aggressive borrowing exposes the institution to the risks and burdens of a large volume of high-cost, short-term liabilities. It has the advantage, however, of enabling the institution to acquire more long-term assets at high yields, thereby strengthening future earnings.

Most savings banks have adopted policies somewhere between these two extremes. The strategy pursued by individual institutions is heavily affected by state legal restrictions, basic earning power and other factors. The crucial point is that all available options be considered in managing disintermediation.

Anticipating Next Cycle

While dealing with the current bout of disintermediation, it is also important to prepare for the next one, whenever it may come. As we have often said, a permanently increased short-term asset position is needed to cope with an increasingly volatile environment. Together with revision of unrealistic usury ceilings, this will increase upward earnings flexibility and thereby improve the ability of savings banks to compete in future interest rate upswings. Stronger earnings at the top of the interest rate cycle will permit greater flexibility in choosing among the various options available to individual institutions in meeting future disintermediation needs. The increased volatility of our deposit structure and the prospect that Reg. Q may be eroded or eliminated in the future emphasize the urgency of efforts to restructure the industry balance sheet along these lines.

A shorter-term asset position may be achieved through a variety of means: variable-rate or rollover mortgages, short-term investments or business loan and deposit powers, which savings banks may acquire before long at the state or federal level. We do not mean to minimize the legislative or practical problems involved. But inflation and Washington's belated discovery of the "small saver" have made narrow specialization in long-term, fixed-rate mortgage lending increasingly untenable. Savings banks have no choice but to adapt accordingly. And this is widely recognized not only in our industry, but increasingly by outside observers as well.

An Opportunity

In conclusion, the current disintermediation experience could also be an opportunity for the industry. In saying this, I am not stretching to end on the usual upbeat note. Rather, I wish to emphasize the urgent need to get on with the job.

Each round of disintermediation has been more violent and dangerous. We need to get off that dreary treadmill. We need to break out of present restrictions and bring our institutions in line with a more volatile and demanding environment. A miserable year by most reckonings, 1979 just might be the beginning of a new and more hopeful phase in our industry's history. **(END)**

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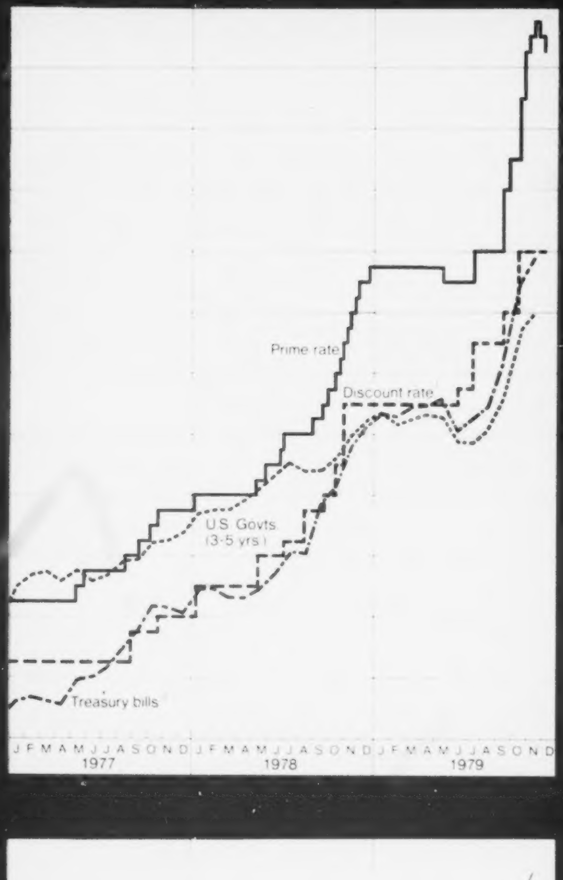
Prime rate
Discount rate
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Treasury bills
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U.S. Govt. bonds
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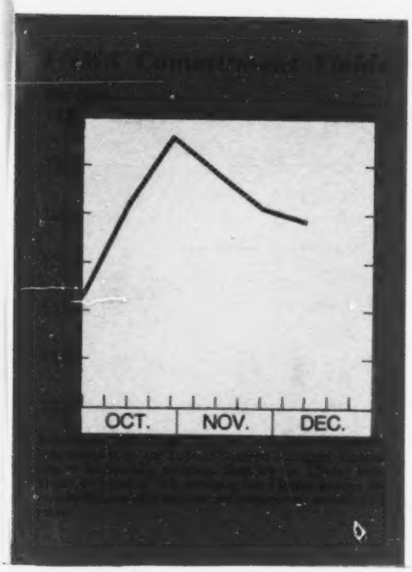
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OCT.
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DEC.

DEPOSIT ACTIVITY IN REGULAR ACCOUNTS IN MUTUAL SAVINGS BANKS,[1] BY STATES

(Amounts in thousands of dollars)

State	October 1979					October 1978				
	Amounts Deposited[2]	With-drawals	Net Change in Deposits			Amounts Deposited[2]	With-drawals	Net Change in Deposits		
			Excluding Interest	Incl. Interest				Excluding Interest	Incl. Interest	
				Amt.	%				Amt.	%
Connecticut	1,052,130	1,104,391	—52,261	8,618	.07	721,738	656,334	65,404	118,181	1.00
Indiana	17,252	18,337	—1,085	—865	—.39	8,696	9,118	—422	—422	—.20
Maine	247,347	243,120	4,227	17,398	.75	143,725	139,345	4,380	14,967	.70
Maryland	122,808	118,934	3,874	9,150	.63	77,426	71,832	5,594	18,282	1.38
Massachusetts	1,937,091	2,039,044	—101,953	13,735	.07	1,420,810	1,452,820	—32,010	66,103	.33
New Hampshire	244,956	249,263	—4,307	8,635	.38	180,154	169,047	11,107	21,471	.99
New Jersey	766,005	767,114	—1,109	39,858	.50	479,162	446,155	33,007	68,322	.93
New York—City	4,351,823	5,377,009	—1,025,186	—971,330	—1.78	3,245,327	3,329,514	—84,187	—53,071	—.10
—Upstate	1,865,598	2,030,675	—165,077	—128,579	—.58	1,227,063	1,223,272	3,791	14,453	.07
Pennsylvania	1,181,155	1,226,827	—45,672	—3,805	—.03	896,356	842,909	53,447	87,082	.79
Rhode Island	161,719	161,170	549	3,427	.22	109,389	114,297	—4,908	—1,796	—.12
Vermont	63,114	71,839	—8,725	—6,129	—.79	41,127	40,810	317	1,465	.20
Washington	445,999	477,294	—31,295	—32,039	—.86	274,454	270,199	4,255	7,458	.21
Wisconsin	5,281	5,038	243	363	.47	2,884	3,017	—133	—59	—.08
All other states	229,978	222,394	7,584	10,917	.58	161,861	173,177	—11,316	—8,762	—.42
Total	12,692,256	14,112,449	—1,420,193	—1,030,646	—.71	8,990,172	8,941,846	48,326	353,674	.25

Note: See notes to "Assets and Liabilities of All Mutual Savings Banks." [2] Excludes interest credited.

[1] Excludes special purpose accounts such as checking, Christmas, vacation and school. Source: National Association of Mutual Savings Banks.

DEPOSIT ACTIVITY IN REGULAR ACCOUNTS IN MUTUAL SAVINGS BANKS

(Amounts in millions of dollars, accounts in thousands)

Period	Amounts Deposited	With-drawals	Net change in deposits			Number of accounts	
			Excluding interest	Including interest		Total	Net Change
				Amt.	%		
Annually							
1975	53,125	48,369	4,757	11,070	11.27	26,284	980
1976	62,429	57,147	5,283	12,269	11.23	27,533	1,151
1977	73,306	70,431	2,874	10,687	8.76	28,825	1,303
1978	91,967	92,558	—591	7,697	5.80	30,472	1,647
Monthly							
1978—Nov.	8,061	8,121	—59	275	.20	30,255	205
Dec.	9,115	9,520	—405	1,213	.87	30,472	217
1979—Jan.	12,303	12,421	—118	218	.15	30,661	190
Feb.	7,179	6,837	342	682	.48	30,797	135
Mar.	9,350	8,887	463	1,972	1.39	30,871	74
Apr.	10,196	11,388	—1,192	—818	—.57	n.a.	n.a.
May	9,007	9,348	—341	61	.04	n.a.	n.a.
June	9,691	10,340	—649	890	.62	n.a.	n.a.
July	12,494	13,208	—714	318	.22	n.a.	n.a.
Aug.	9,825	10,329	—504	—112	—.08	n.a.	n.a.
Sept.	8,920	9,991	—1,071	484	.34	n.a.	n.a.
Oct.	12,692	14,112	—1,420	—1,031	—.71	n.a.	n.a.
Nov. (Est.)	n.a.	n.a.	—750	—350	—.24	n.a.	n.a.

n.a.—not available. Est.—estimated.

Notes: Annual and monthly data for net change in deposits including interest and net change in number of accounts have been adjusted, where necessary, to exclude the effects of conversions and consolidations of savings banks and other types of institutions. Amounts deposited and withdrawals include shifts of funds between ordinary and time and other higher-yield accounts. Components may not add to totals due to rounding. Source: National Association of Mutual Savings Banks.

ASSETS AND LIABILITIES OF ALL MUTUAL SAVINGS BANKS

(Amounts in millions of dollars)

Date	Mortgages	GNMAs	Investments				Other assets	Total assets-Total liabilities & gen. res. accts.	Deposits			Other liabil-ities	General reserve accounts
			U.S. Govt. & Federal agencies	State & local Govt.	Corpo-rate bonds	Corpo-rate stocks			Total*	Savings	Time		
1975 Dec. 31	77,221	3,367	7,507	1,545	17,536	4,322	9,558	121,056	109,873	69,653	39,639	2,755	8,428
1976 Dec. 31	81,630	5,808	9,109	2,417	20,335	4,381	11,131	134,812	122,877	74,535	47,426	2,884	9,052
1977 Dec. 31	88,195	8,331	9,233	2,828	21,498	4,751	12,450	147,287	134,017	78,005	54,739	3,292	9,978
1978 Nov. 30	94,497	9,820	8,437	3,307	21,633	4,824	14,916	157,436	141,155	72,398	67,299	5,411	10,870
Dec. 31	95,157	10,021	8,297	3,333	21,566	4,807	14,991	158,174	142,701	71,816	69,354	4,565	10,907
1979 Jan. 31	95,552	10,230	8,178	3,328	21,622	4,815	15,167	158,892	142,879	69,244	72,145	5,032	10,980
Feb. 28	95,821	10,492	8,114	3,167	21,665	4,837	15,983	160,078	143,539	68,817	73,254	5,485	11,054
Mar. 31	96,136	10,669	8,187	3,126	21,767	4,849	17,132	161,866	145,650	68,829	75,213	5,048	11,167
Apr. 30	95,900	11,011	8,193	3,326	21,331	4,869	16,602	161,231	145,096	67,758	75,452	5,050	11,084
May 31	96,239	11,168	8,148	3,264	21,249	4,887	16,426	161,380	145,056	67,577	75,694	5,172	11,153
June 30	96,743	11,230	8,029	3,175	21,174	4,877	16,586	161,814	146,057	68,104	76,057	4,545	11,212
July 31	97,238	11,275	7,992	3,154	20,994	4,902	17,042	162,598	145,757	67,537	76,306	5,577	11,264
Aug. 31	97,259	11,341	7,921	3,149	20,924	4,861	17,933	163,388	145,713	66,733	76,998	6,350	11,324
Sept. 30	97,973	11,422	7,891	3,150	20,835	4,819	17,341	163,431	146,252	65,676	78,572	5,791	11,388
Oct. 31	98,304	11,611	7,750	3,100	20,818	4,781	16,770	163,133	145,096	62,672	80,591	6,600	11,437
Nov. 30 (Est.)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	144,596	n.a.	n.a.	n.a.	n.a.
% of Total Assets													
October 31, 1979	60.3	7.1	4.8	1.9	12.8	2.9	10.3	100.0	88.9	38.4	49.4	4.0	7.0
Change during month	285	190	—141	—51	—18	—38	—570	—342	—1,200	—3,029	1,999	809	49

Note: Balance sheet data beginning with April 30, 1979 are not strictly comparable with prior months. This largely reflects: (1) changes in FDIC reporting procedures; and (2) reclassification of certain items.

n.a.—not available. Est.—estimated. Source: National Association of Mutual Savings Banks.

* — Total deposit figures include checking, school, club and certain other accounts not shown separately.

Note: GNMA figures refer to all types of mortgage-backed securities guaranteed by the Government National Mortgage Association.

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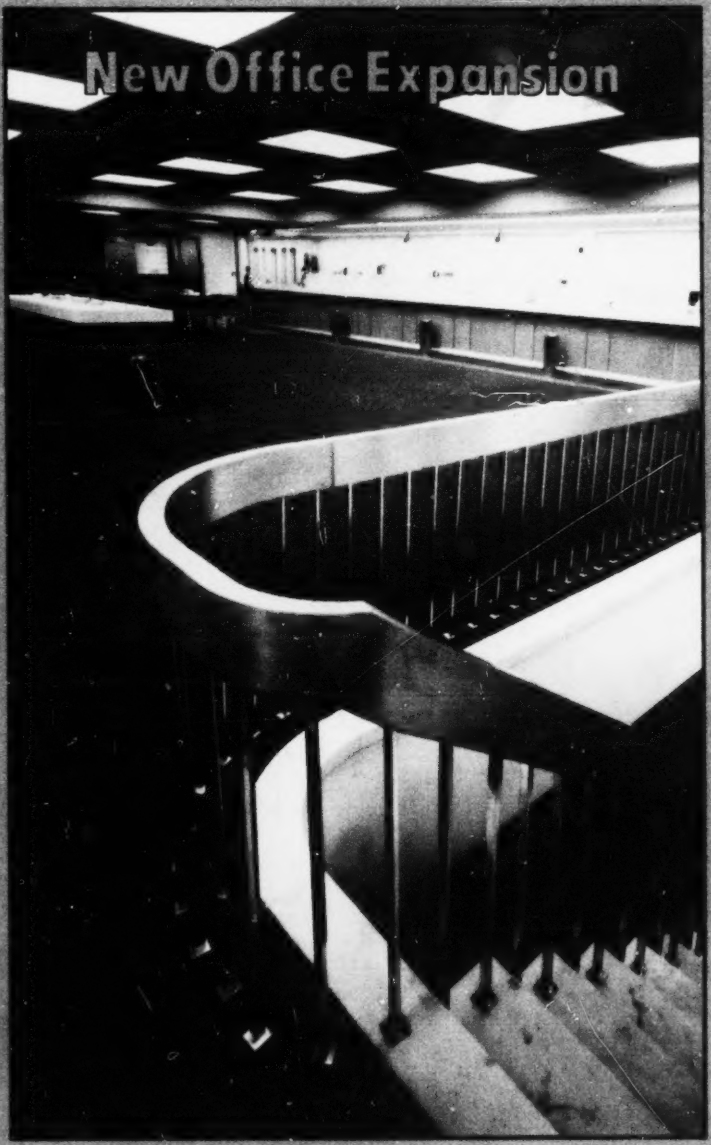

New Office Expansion

Surprise...New 30-Month CD Clicks With Public

Nondeposit Liability Management

—a look at three short-term tactics ...are they for you?

Increase Pension Services Sales-Push, Savings Bankers Told

Also: Mutual in New York Opts for Federal Charter ■ Usury Preemption Bumps Up Against Credit Crunch ■ NOW Accounts Off to Slow Start in New Jersey ■ Opposition Mounts to Industry's First Federal Charter Application ■ Court Upholds Mutual-to-Stock S&L Conversions ■ Expanded Credit Union Customer Base Upheld ■ Rates Increase, Starts Unexpectedly Rise Slightly

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Savings Bank Journal
February 1980 Volume 60

Nondeposit Liability Management

. . . in a pressure-laden financial environment

Nondeposit liability management is a shorthand way to describe a strategy for increasing earnings and liquidity by tapping the short-term money market. . . . And, as the author explains, there is plenty of room for most savings banks to expand their short-term borrowing activities.

THIS YEAR promises to be filled with as many economic and financial uncertainties as was 1979. In such an environment, the successful savings bank will be required to develop a number of alternative operating strategies. Among these, many banks are considering a potential role for short-term open-market borrowings—such as commercial paper, so-called jumbo CDs and securities repurchase agreements—in meeting deposit outflows and bolstering their earnings.

There exists considerable room for savings banks to expand their use of short-term money market borrowings. As of October 1979, external borrowings represented only 2% of savings bank assets. Also, future short-term borrowings by savings banks should be facilitated by anticipated new FDIC regulations which will authorize savings banks for the first time to sell commercial paper. And the recent introduction of independent credit ratings for commercial paper and large certificates of deposit should eliminate any market impediments which, to date, have served to bar savings banks from full participation in the short-term credit markets.

For a number of other reasons, issuing commercial paper and large negotiable and non-negotiable certificates of deposit in national credit markets will deserve further attention by savings banks during what is forecast to be a disappointing 1980. Principally, costs—issuance plus interest—are generally lower for commercial paper and CD issuers who repeatedly tap these sources than are alternative sources of borrowings. However, initial high selling costs will make such sales unattractive to savings banks which plan only infrequent issues or have other sources of borrowing available. Securities repurchase

Table 1 — Reliance on External Borrowings by Mutual Savings Banks and Savings and Loan Associations
(amounts in millions of dollars)

	Mutual savings banks		Savings and loan associations	
Average for period	Amount	Percent of assets	Amount	Percent of assets
1973	$ 264	0.3%	$13,495	5.2%
1974	611	0.6	20,918	7.4
1975	687	0.6	22,597	7.3
1976	478	0.4	19,828	5.5
1977	512	0.4	23,465	5.5
1978	1,108	0.7	30,374	6.2
January-October, 1979	2,456	1.5	46,607	8.4
As of Oct. 31, 1979	3,529	2.2	54,264	9.4

Note: Above data include FHLBB advances and other borrowings for both savings banks and savings and loan associations. As of Sept. 30, 1979, 100 savings banks were members of the FHLB System.

by Philip M. Gabel

The author is the senior economist in NAMSB's Department of Research and Economics; this article is based on a memorandum he presented to the National Association's Asset and Liability Management Committee.

agreements, on the other hand, offer attractive opportunities for savings banks. Relatively cheap sales and interest costs, plus the speed with which these transactions are executed, make repos useful for bolstering earnings as well as in meeting temporary liquidity needs.

In this article, we will briefly set the economic and financial stage savings banks will likely find themselves operating in during 1980. Then, in this context, we'll look at the reliance by savings banks on external borrowings historically, and at the mechanics of savings bank participation in the markets for commercial paper, negotiable CDs and securities repurchase agreements.

Financial Environment

The year 1979 saw record levels of disintermediation at savings banks surpassing the $6 billion mark, excluding interest, and bottom-line earnings dropped by more than one-third from year-earlier levels. All this occurred against a background in which: (1) open-market rates rose above previous peaks set during 1973-74; (2) deposit interest costs soared as a result of escalating six-month CD interest costs and increases in the Regulation Q ceilings; (3) the Federal Reserve, to curb inflation, shifted from controlling the federal funds rate to regulating commercial bank reserves more directly; and (4) the economy began to weaken.

Confronted with this hostile environment, savings banks were increasingly forced to sacrifice earnings so as to meet escalating deposit outflows.

More of the same is forecast for 1980, but only in lesser doses. While the recession should be short, recovery likely will be slow and modest. Interest rates should peak sometime during the first half of the year and then decline moderately so that by year-end the prime rate should be around 10% and mortgage rates in the 10%-11% range.

Disintermediation at savings banks should lessen during 1980, although outflows are still expected to be around $3 billion for the year as a whole. Concerning industry earnings, additions to retained earnings are expected to decline still further, reflecting the continuing unavailability of investment capital and increasing deposit interest costs. Against this background, savings banks have good reason to consider strategies for cushioning the expected 1980 decline in earnings.

Table 2 — Relative Borrowing Costs, Selected Interest Rates

	prime rate	90-119-day prime commercial paper	4-6-month commercial paper	3-month certificates of deposit
1973-74 disintermediation period	9.8%	9.7%	9.6%	N.A.
1975	7.9	6.3	6.3	6.4
1976	6.8	5.2	5.4	5.3
1977	6.8	5.5	5.6	5.6
1978	9.1	7.9	8.0	8.2
1979				
January	11.8	10.3	10.3	10.5
February	11.8	10.0	10.0	10.2
March	11.8	9.9	10.0	10.1
April	11.8	9.9	9.9	10.1
May	11.8	10.0	10.0	10.2
June	11.6	9.8	9.7	10.0
July	11.6	9.9	9.8	10.0
August	12.0	10.4	10.4	10.7
September	12.9	11.6	11.6	11.9
October	14.3	13.2	13.2	13.7
November	15.6	14.4	N.A.	14.0
December	15.0	13.8	N.A.	13.4

N.A. — not available.
Source: Federal Reserve Board and the "Schroder Report."

Historical Pattern of Borrowings

The 1980 forecast suggests a useful role for short-term money market borrowings. Savings banks to date, however, have been reluctant to expand their reliance on external borrowings. As noted earlier, savings bank external borrowings represent only 2% of savings bank assets. This reticence to use short-term credit markets, however, appears consistent with savings bank liability management policies in past high-interest-rate periods. For example, during the 1973-74 period, savings bank borrowings never amounted to even 1% of assets. (See Table 1.)

To a certain extent, legal constraints as well as commercial bank domination of the short-term credit markets have kept savings banks from participating fully in these markets.

On the other hand, savings and loan associations—largely due to the availability of FHLBB advances—have relied far more heavily on external borrowings. As of Oct. 31, 1979, external borrowings represented nearly 9% of S&L assets.

Furthermore, though declining markedly, external borrowings still accounted for between 5% and 6% of savings and loan assets during the more moderate interest rate climate of the mid-1970s. This suggests that even during periods of strong deposit inflows, S&Ls have been able to find productive uses for borrowed funds.

Based on the experience of the savings and loan business, considerable room appears to exist for savings banks to expand their activities in this area. It goes without saying, however, that the availability of FHLBB advances and fewer regulatory impediments on federally chartered savings and loans have been influential in promoting this greater S&L reliance on external borrowings. But, regardless of the reasons, the impact of these borrowings on the savings associations has been favorable. For example, during periods of disintermediation, among savings and loans: securities losses have been smaller; there has been less dependence on commercial bank borrowings; and holdings of liquid assets have been smaller. In addition, from an earnings perspective, over the entire interest rate cycle, S&L bottom lines have been bolstered by margining high-yielding investments with short-term borrowings.

Commercial Paper

The recent and anticipated savings bank deposit outflows and the potential that apparently exists for expanding short-term borrowings should motivate savings bank management to consider issuing commercial paper during 1980, if FDIC, as is expected, authorizes such sales for savings banks.

Features of commercial paper. Commercial paper is a short-term—usually unsecured—promissory note which has a scheduled repayment date. In addition, other features of commercial paper include the following:

- Maturities which range from five days to nine months, although 30 days is most common. To a great extent, maturities have been determined by provisions of the Securities Act of 1933. This Act, in part, requires that commercial-paper issues with maturities exceeding nine months be registered with the Securities and Exchange Commission. The additional filing requirements associated with SEC registration effectively limit longer maturities.
- Commercial paper is generally issued in denominations of $100,000, although issues with minimum denominations of $250,000, $500,000 and $1 million are not uncommon.
- While yields generally move in relation to changes in the prime rate and federal funds rate, they run significantly below the prime and much closer to the federal funds rate. For example, in 1979 the average yield spread between 90-119-day prime commercial paper and the prime rate was nearly 160 basis points, compared with 10 basis points between commercial paper and federal funds.
- Commercial paper is sold on a discount basis, has no well-developed secondary market and is most frequently sold through New York City brokers, although certain large corporations rely on direct placement for their paper.

Associated interest costs. An obvious advantage of commercial paper is that interest costs on it are lower than on borrowings from a commercial bank at the prime rate plus the costs of maintaining compensating balances. During 1979, the yield spread between commercial paper and the prime rate ranged from a low of 110 basis points in October to a high of 190 basis points in March. These comparisons suggest obvious cost implications for savings banks, some of which are finding that deposit drains must, in part, be met through borrowing from commercial banks and sales of securities. (See Table 2.)

Issuance costs. Of course, selling costs must also be considered when a bank is deciding whether or not to issue commercial paper. Although the experience of individual savings banks may differ, a hypothetical illustration of the selling costs associated with a first-time sale was developed based on discussions with New York investment bankers. It should be stressed once again, however, that the nature of the market and lack of savings bank experience in selling commercial paper make it impossible to develop precise estimates of the costs which would be experienced by every savings bank. Therefore, the illustrations presented here are best used only as indications of the possible range of costs which might be encountered.

In the present example, it is assumed that a bank sells $1 million of 90-day prime commercial paper. And this entire amount is rolled over at maturity continuously for one year at the 1979 average rate for 90-119-day prime commercial paper. Based on these assumptions, first-time selling costs for the commercial paper—fees for the dealer, credit rating agency, etc.—would be in the area of 2.35% of the total amount of paper sold, bringing the first-time issuer's total costs—issuance costs plus interest—to 13.35%. (See Table 3.)

The above illustration demonstrates that despite favorable interest costs,

Table 3 — A Hypothetical Illustration of Interest and Selling Costs Associated With Commercial Paper

Notes:
1. The following illustration was developed based on discussions with New York investment bankers.
2. Dollar amounts cited in the following example are meant to illustrate only the range of potential costs which might be experienced by a savings bank since lack of experience and the nature of the market make it impossible to develop firm estimates.
3. The illustration assumes that a savings bank issues $1 million of unsecured 90-day prime commercial paper. And this amount is continuously rolled over at maturity for one year at the average 1979 rate on 90-119-day prime commercial paper.

	Dollar Amounts	As percent of amount issued
1. Amount sold yielding 11%	$1,000,000	
Total interest costs	$ 110,000	11%
2. Selling costs		
dealer's fees	$ 700[1]	.07%
credit rating	17,000[2]	1.70
paying agent	400[3]	.04
line of credit	5,350[4]	.54
legal fees	N.A.	
Total selling costs	$ 23,450	2.35%
Total interest and selling costs	$ 133,450	13.35%

N.A.—not available.

[1] Dealers fees generally range from 10-18 basis points on the average amount outstanding.

[2] The cost of an initial credit rating will range anywhere from $8,000-$25,000.

[3] Cost of a New York City paying agent is $10 per note sold.

[4] The cost of a line of credit is maintenance of a non-earning compensatory balance equivalent to 5% of the full line. It is assumed that this amount if available to the savings bank would have been invested at the average 1979 mortgage interest rate.

compared to the prime rate, commercial paper may not be the route to go for every savings bank. Including selling costs, first-time issuers are likely to find that, at least initially, high start-up costs make commercial paper more expensive than borrowing at the prime rate. Therefore, unless a savings bank plans a long-term commitment to the commercial paper market, it may be wiser to continue borrowing from a commercial bank.

However, in the case of the repeat commercial paper seller, subsequent sales will be considerably cheaper, in that a full-fledged credit rating examination will not have to be repeated a second time. And elimination of this requirement should reduce selling costs by more than two-thirds, thus making commercial paper cheaper than borrowing from a commercial bank. Moreover, issuance costs may be reduced still further, because some savings banks may have established lines of credit at commercial banks which are going unused. These could be used to back commercial paper issues at no additional cost to the savings bank. Also, selling costs, whether for a first or subsequent issue, will decline as a percent of the total amount issued as the size of the issue increases.

To return to the negative side for a moment. The previous example assumed that the bank received an "A-1" rating from either *Moody's* or *Standard and Poor's*, or one of the other major rating services. If not, related interest costs are likely to be considerably higher than those in the illustration. Also, it was assumed that the commercial paper issue was unsecured rather than secured. Needless to say, selling costs associated with a secured issue would have been considerably higher. Ratings, incidentally, are a relatively new feature for commercial paper. Previously, commercial paper was sold based on the reputation of the issuer, and sellers who were credit worthy, but unknown, frequently encountered significant market resistance.

Another cost aspect to consider vis-a-vis the commercial paper market is that many savings banks may have a cheaper alternative way of borrowing available to them. For example, as of September 1979, 100 savings banks were members of the Federal Home Loan Bank System. And since rates on FHLB advances and commercial paper are generally fairly close, member savings banks—having already incurred the costs of belonging to the system—might choose to avoid commercial paper issuing costs by borrowing from the FHLB.

Although perhaps appearing so far to take a back seat to cost considerations, equally important is the potential role in savings bank earnings of the funds raised from commercial paper sales. Unfortunately, in the present high-interest-rate environment, only high-yielding short-term investments, such as Eurodollars, offer earnings that are significantly above commercial paper selling and interest costs. (See Tables 2, 3 and 4.) During much of 1979 and generally during the middle of the 1970s, however, favorable yield spreads would have made it attractive to margin mortgage investments with commercial paper sales. And in fact, even presently, some savings banks have elected to take short-term losses on their borrowings in order to lock in cyclically high-yielding mortgages. (See Table 4.)

Table 4 — Margining Borrowed Funds, Selected Investment Yields

	Federal Funds	3-Month Treasury bills (secondary market)	3-month Eurodollar deposits	Conventional mortgages, Secondary market
1975	5.8%	5.8%	7.0%	9.4
1976	5.1	5.0	5.6	9.1
1977	5.5	5.3	6.1	9.0
1978	7.9	7.2	8.7	10.0
1979				
January	10.1	9.4	11.2	11.1
February	10.1	9.3	10.8	11.0
March	10.1	9.5	10.6	10.9
April	10.0	9.5	10.6	11.0
May	10.2	9.6	10.7	11.4
June	10.3	9.1	10.5	11.6
July	10.5	9.2	10.9	11.5
August	10.9	10.3	11.5	11.5
September	11.4	10.3	12.6	11.8
October	13.8	11.7	14.6	12.8
November	13.2	12.4	15.1	13.7
December	13.7	12.5	14.4	13.0

Source: Federal Reserve Board and the "Schroder Report."

Aside from yields and issuing costs, commercial paper does offer certain other advantages relative to other forms of external borrowing. Among them: the speed with which it can be sold and the issuer's ability to tailor maturities. These features by themselves have been sufficient to reduce the need for a secondary market and increase the potential usefulness of commercial paper in meeting unforeseen liquidity needs.

With the latter advantages and the expected elimination of regulatory impediments, it behooves savings banks to familiarize themselves with commercial paper. A final decision on whether or not to sell commercial paper, however, can only be made when considered in relation to the overall operating objectives of the institution.

Negotiable Certificates of Deposit

Savings banks have had considerably more experience with direct placements of large non-negotiable CDs than with other forms of short-term borrowings. However, this instrument's usefulness has been limited to a relatively few investors by virtue of its non-negotiability and lack of marketability in distant markets. This obviously has tended to lengthen the time required to raise needed funds through this instrument and reduce the worth of large certificates of deposit as a source of capital.

The role of large certificates of

deposit at savings banks, however, could soon change due to the availability, beginning last year, of credit ratings for negotiable and non-negotiable CDs. Negotiable CDs differ from their non-negotiable counterpart in that they are traded in an active secondary market. Also, the introduction of independent credit ratings—whether for negotiable or non-negotiable CDs—should help to overcome the difficulties associated with an unknown issuer attempting to sell his debt in markets distant from his home area.

Except for the secondary market consideration, the negotiable and non-negotiable CD are similar. Both of these instruments:

- Are time deposits on which Regulation Q ceilings do not apply.
- Have an interest rate which fluctuates in relation to other comparable short-term rates. (For example, during 1979, three-month CD interest rates were roughly equal to those on federal funds while being significantly less than the prime rate. In December, these CD rates averaged 13.8%, while the fed funds and prime rates averaged 13.7% and 15%, respectively. See tables 2 and 4.)
- Are sold in minimum denominations of $100,000.
- Pay interest on a bond yield equivalent basis—that is, principal plus interest, compared to commercial paper which is on a discount basis.
- As a rule, have maturities ranging from 30 days to six months, although longer maturities are permissible. A favorite maturity of many savings banks, however, is 30 days.
- Are frequently marketed through direct placements, but as a result of credit ratings they are increasingly being issued through New York dealers.

To date, savings banks have often sold non-negotiable CDs, so as to bolster their earnings by margining high-yielding investments with the lower cost CDs. An additional advantage of non-negotiable CDs: direct placements have enabled issuing banks to minimize selling costs. Savings banks selling either negotiable or non-negotiable CDs in national markets must unavoidably, however, increase selling costs and thus reduce earnings benefits from this type of external borrowing. Despite this, these CD issuance costs, in most instances, will still be less than those on commercial paper, basically because large CDs do not have to be backed by expensive commercial bank lines of credit. But regardless, a basic fact remains: Higher initial CD selling costs will reduce the attractiveness of such sales to the one-time or infrequent seller.

Concerning specific issuing costs, in some cases a bank might be able to sell its CDs without benefit of a credit rating, but for others a rating will be a necessity. This can be significant, according to some banks, because a bank that can do without a rating can expect that its CD issuing costs will drop to as little as five basis points, which would cover brokerage fees. Banks that require a credit rating to sell their large CDs can anticipate costs on a first-time sale approaching 1.8%, assuming a $1 million issue. This will cover the dealer's fee and the credit rating. The second sale, however, will require that only the dealer's fee be paid, assuming no significant time lapse between the first and second sales, and that the original credit rating continues to be acceptable.

For many savings banks, large CDs have not proven a viable alternative to borrowing from commercial banks in order to meet temporary liquidity needs. This obviously has been due more to the short period in which large amounts must often be raised by these banks, rather than to selling costs. Future sales—assuming a bank is willing to underwrite the initial costs of selling in national markets—are likely to be much quicker and this should offer the possibility of a new employment for the large CD.

Repo Agreements

Of the different forms of short-term borrowings discussed, savings banks have had substantial experience with securities repurchase agreements. Needless to say, execution of a repo involves the temporary sale of securities to an investment banker with a simultaneously executed commitment to repurchase them on a certain date. As a rule, the securities which are sold are either U.S. government or some other high-quality securities. To avoid losses resulting from possible market fluctuations, the selling institution agrees to repurchase its securities at par plus interest.

The investment bankers who buy the repos do not generally warehouse the securities they purchase, but rather sell them to an unrelated third party. The original bank therefore is likely to repurchase different securities from those originally sold. Protection is provided the seller, however, by the fact that he is guaranteed the return of securities comparable to those originally sold.

Repos may have an exact term or carry no specific repurchase date. In the latter case, the repo can be canceled by either party at any time. More often, however, repos are executed for an exact term, one day being the general rule.

What makes a repo attractive to a savings bank is its cost and speed. Selling costs are minimal, basically involving only a brokerage fee, which, incidentally, is included as part of the stated rate. Rates, paid on the repos, as a rule, move in relation to other short-term rates, such as the federal funds rate. For example, in December, rates on repos were in the 12.5% range while the fed funds rate averaged 13.7%. As a general rule, rates on repos fluctuate in a narrow band of ¼ of 1% to 2% below the rate paid on federal funds.

Unlike large CDs, lack of recognition has not closed repo markets to savings banks. Repos are in effect collateralized loans, and the value of the backing securities serves as a substitute for recognition of the issuing bank.

Both large and small savings banks have taken advantage of this access to execute repos, as their cost makes them ideal for margining high-yielding investments. But, in addition, the speed with which a repo can be executed makes it useful for satisfying temporary liquidity needs which occasionally arise.

In summary, the potential obviously exists for savings banks to expand their activities in the area of short-term borrowings. As has been stressed throughout, however, greater involvement can require substantial initial start-up costs, and these can be justified only if the institution can gain access on agreeable terms, and plans to make repeated use of short-term credit markets.

(END)

Aggressive Marketing for Pension Services Urged at Seminar

Savings banks should aggressively seek a larger slice of the $530 billion retirement account pie, and sharpen their competition against insurance companies, savings and loan associations and commercial banks for the full range of pension plan accounts. This was the message delivered to some 125 delegates at a one-day seminar on "Marketing Pension Services," held in New York City, December 14, and sponsored by the Savings Banks Association of New York State.

As one speaker pointed out during the seminar, savings banks—particularly those in New York State—have been offering pension services since the Keogh plan was authorized by Congress in 1962. But, recent data show a slight erosion in the industry position in New York State, and nationally. The 17-state mutual savings bank industry lost 2% of the national IRA/Keogh market shared by financial institutions in 1978; New York State savings banks also dropped 2% in their national market share that year (see table, this page).

Financial Institutions Ira/Keogh Market Share
(amounts in millions of dollars)

	Savings Bank Industry	New York Savings Banks	Savings and Loan Industry	Commercial Banking Industry
Total (12/31/78)	$2,235	$1,570	$5,524	$2,992
Share (1977)	20%	15%	45%	20%
Percent Growth	45%	43%	63%	94%
Attributable Growth	15%	10%	45%	30%
Share (1978)	18%	13%	45%	24%

Source: NAMSB and SBANYS.

The decline came at a time when, according to another speaker, the Keogh and corporate pension services market has proven it will provide relatively low-cost, stable sources of long-term deposits during disintermediation, and when the IRA market remains virtually untapped.

Supporting this call to action, the delegates further were told that retirement accounts should not be considered tax-shelters for the idle funds of the well-to-do; rather they should be looked on as long-term relationships that can provide impetus for service diversification and cross-sell opportunities. Pension services, one speaker reasoned, are very much in line with the purpose for which savings banks were originally founded—thrift and money management, the encouragement of savings for security and for a "rainy day."

To successfully penetrate the pension funds market, the delegates were urged to:

- Diversify their pension services; IRA and Keogh plans account for only 3% of the pension market, yet these are the only two services savings banks have been concentrating on in marketing efforts.
- Assign marketing and administrative responsibilities for pension services, develop sales training programs, and design products that are keyed to specific customer needs and market segments.

In opening remarks to the seminar, Frank A. Dellomo, executive vice president, The Brooklyn Savings Bank, New York City, and chairman of SBANYS' committee on financial and marketing analysis, claimed that the more than $2 billion of New York savings bank pension accounts "does not even scratch the tip of the iceberg in market potential." Relative to market potential, the seminar audience was informed that approximately one-half of the U.S. work force, some 46 million people, are

(continued on page 48)

Pension Seminar—

not covered by pension plans. In the area of corporate accounts, nationally there are some 10 million unincorporated businesses, with 975,000 firms employing less than 100 people.

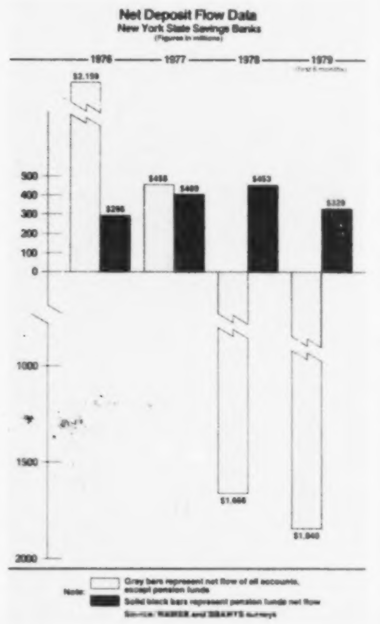
Continuing, Dellomo cited the $329 million increase in IRA and Keogh deposits that New York State savings banks experienced in the first half of last year as "dampening the otherwise $1.8 billion outflow in other deposits" (see chart, page 49). Over 450,000 pension accounts are held by SBANYS' reporting member banks.

Drawing on his own institution's experience, Dellomo advised savings bankers to "actively research their pension services market and customer, particularly the needs of those commercial bank and corporate customers who keep pension funds on deposit in trust accounts. This active research also must be extended beyond the individual institution to find out what other banks are providing their corporate pension trust depository customers," he suggested.

"Several years ago," Dellomo said, "Brooklyn Savings did research the corporate pension trust depository market to learn what other banks were doing to serve these accounts. And it was shocking for us to see how antiquated some of their pension service systems were—with manual accounting, hand-posting, and even the writing of checks and customer statements by hand." As a result, Dellomo said, Brooklyn Savings designed its pension services program around its bank computer. "We found out what kind of service the customer wanted and needed, and we provided it. Active marketing research showed the way."

Similarly, another seminar speaker, Douglas Vergith, assistant vice president, Schenectady (N.Y.) Savings Bank and chairman of SBANYS' bank operations advisory committee on pension services, pointed out that savings banks have a wide variety of plans and account services to offer both the consumer and the corporate customer.

In addition to the seasoned IRA and Keogh plans, he said, there is the new Simplified Employee Pension Plan (SEPP) which bridges both markets. "This plan is still so new," Vergith said, "that we do not yet have any feeling for a true level of potential savings bank participation in the SEPP program, except that a number of banks have expressed interest in the association's prototype of the plan." SEPP allows employers, both corporations and unincorporated businesses, to make tax-deductible contributions to IRAs for employees in an amount not exceeding the lesser of 15% of annual compensation, or $7,500 per year."



Among various corporate pension services, Vergith cited the profit sharing and thrift incentive plans available through savings banks. These, he said, allow employers to tailor a plan to their own needs through contributions out of net profits based on the employee's personal contributions, or through a preselected formula approach to contributions, or combinations of both. "A significant move was made in the area

(continued on page 50)

Pension Seminar—

of corporate pension plans last year," Vergith said, "when the maximum annual contribution limitation for an employee was increased to the lesser of $32,500 or 25% of annual compensation. The employer's annual deduction is limited to 15% of total compensation of all participants," he explained.

And, savings banks have taken advantage of powers to act as a pension trust depository. "At the end of April 1979, New York State savings banks held over $300 million worth of corporate pension deposits in a variety of accounts," Vergith said.

Later in the seminar program, SBANYS' Robert Quinlain, assistant director of bank services, would say this $300 million figure is a low estimate. "I suspect," he said, "that this figure is seriously understated because a significant number of large savings banks do not accurately and regularly monitor the amounts of their corporate deposits." Quinlain suggested that banks "rethink their management information system reports and structure them to analyze net deposit flows by product type—IRA, Keogh, or corporate services."

The structure of savings bank pension accounts was emphasized by another speaker, Carlos Naudon, the association's director of financial and marketing analysis. Citing data from a SBANYS' pension account survey, he said, "savings banks, whether by design or as a result of competitive forces, have primarily engaged in a retail level of pension service activity, serving the IRA customer, while the competition has made significant inroads on the wholesale, or Keogh and corporate sides."

Keogh and corporate pension services attract less volatile, longer-term deposits, Naudon said, in noting withdrawal rates of 4% for Keoghs in 1978 compared with 7% for IRAs. In addition, Keoghs registered a higher average account balance during the year than IRAs.

Using data from the Federal Reserve's Functional Cost Analysis, Naudon compared transaction volume and the costs for regular savings and time certificates and drew an analogy between these two services and IRAs and Keoghs. "Regular savings accounts are substantially more expensive to maintain (about $35 per year) than time certificates (about $10 per year)," he said. "More importantly, the volume of dollars generated by regular savings is significantly less than is obtained through time certificates. This is particularly evidenced by the fact that three out of four regular savings accounts are very low-balance accounts." Continuing, he said, "Available data indicate that IRAs have the same transaction levels as regular savings accounts. Keogh and corporate accounts, however, have less transactions and more closely reflect time certificates. The inference to be drawn here is that because IRAs and Keoghs both usually pay 8% interest, IRAs are substantially more expensive than the wholesale-oriented Keogh and corporate plans."

While Naudon stressed the value of developing the Keogh market, SBANYS' Quinlain in his presentation emphasized the untapped resource of IRAs. Quinlain reported that "from the latest data from the U.S. Department of Treasury (1977), less than 5% of the eligible IRA plan customers have actually opened an IRA. New York savings banks now hold over $1 billion in IRA accounts. What deposit impact would there be if the percentage of IRA holders jumped from 5% to 25% or 40%?"

Part of the unrealized market for IRAs, Quinlain said, is in the middle-income bracket, and he explained, "Less than 10% of all current IRA holders earn less than $20,000 a year, and of those who earn more than $50,000 a year, 50% have IRAs."

For workers earning up to $20,000 a year, "our industry's degree of success has been most disappointing, since our market is some 60 million taxpayers," Quinlain said.

In addition to providing low-cost, long-term, stable sources of funds and new products for the savings bank services portfolio, pension accounts also can provide a route to savings bank diversification, according to speaker Ross B. Kenzie, president of the Buffalo (N.Y.) Savings Bank. Kenzie, former executive vice president of Merrill Lynch, drew a parallel between the need for service diversification that brokerage houses faced in the mid-1970s and the similar need savings banks now face.

In this context, he said, "for savings banks, diversification must involve an extension of their traditional role as thrift institutions, to enable them to fulfill an individual's personal financial needs. One of the areas definitely wellsuited to the savings ethic and the image of 'people banking' is financial management."

Kenzie pointed out that, currently, commercial banks, trust services, brokerage houses, and attorneys are filling customer needs for financial management services. "But, the ultimate expansion of such products as our IRA/Keogh programs into pension trust services is one way savings banks may fill this need."

However, these pension fund products and services must be "sold," the seminar audience heard from Leonard S. Simon, executive vice president, Community Savings Bank, Rochester, N.Y., who concentrated on the "pros and cons" of the product manager concept within the development of a pension services program.

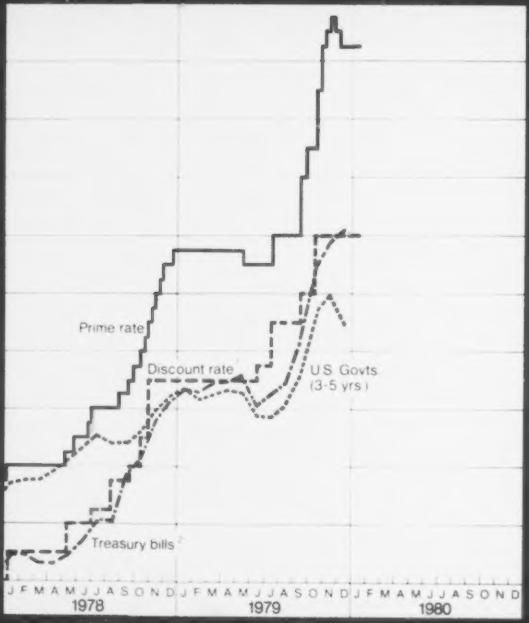
Whether the product manager concept is applied to pension services, or to any financial institution product, there are certain inherent advantages and disadvantages to the approach, he said. Among the advantages Simon cited are: timely reactions to competitive moves; input to the marketing process better harmonized to the advantages of each product presented to the public; appropriate attention given to "less important" products; training and testing ground for future management; and a better opportunity for incentive compensation, either as promotion or wage increases.

For example, Simon explained that the product manager's position would enable the institution to better differentiate cross-sell opportunities and consumer services associated with the IRA from the dollar advantages of the Keogh and corporate services.

Among the disadvantages of the concept, Simon listed: potential for confusion in authority; parochialism, where the product manager does not develop a broad view of the bank and its goals and only concentrates on a narrow functional area; and over-specialization.

"If there is no clear-cut authority for who has the final say—for instance, between a product manager and the advertising manager—then a lot of problems are going to wind up on the marketing vice president's desk that should not be there." Many companies and financial institutions using the product manager concept will place final authority and responsibility for product decisions with the product manager, he said. Simon added that using product managers could become costly, if a large support staff is needed, and if the whole range of products offered are to have managers. "The question is," he said, "how small a product (in importance) should get this kind of specialized attention."

Certainly, pension services qualify for the treatment, Simon asserted. "Because these products require the integration of many different areas of expertise—legal, operations, marketing, investment—and the product manager can act as a coordinator. Also, there is a separate and distinctly defined market target group; necessary record-keeping is readily feasible; and the need of pension services and the pension services market for specialized attention is great—all argue well for using product managers," he concluded.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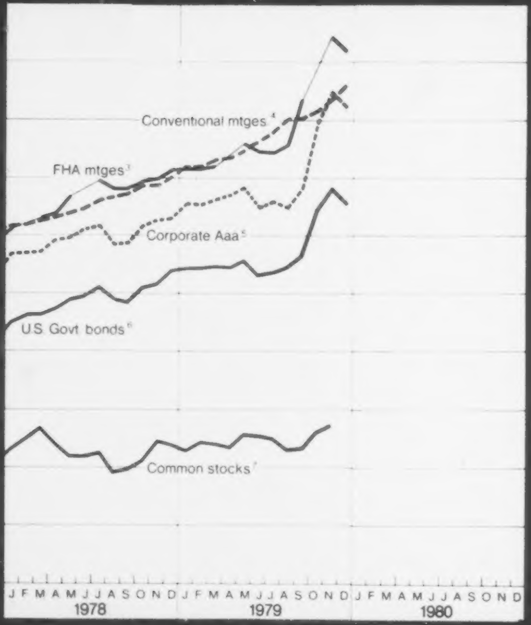
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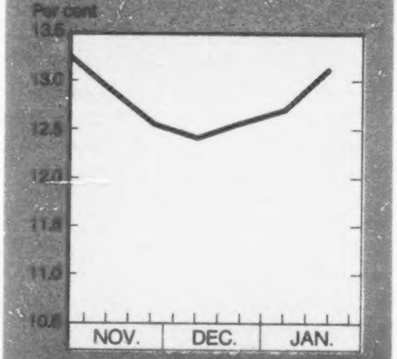
FNMA Commitment Yields



Note: Data are average yields on mortgage commitments bids accepted by the Federal National Mortgage Association at its biweekly auctions. Data are for 120-day bids. Yields are gross of ⅜% servicing fee. Figures assume 30-year mortgages with an assumed prepayment period of 12 years.

DEPOSIT ACTIVITY IN REGULAR ACCOUNTS IN MUTUAL SAVINGS BANKS,[1] BY STATES

(Amounts in thousands of dollars)

State	November 1979					November 1978				
	Amounts Deposited[2]	With-drawals	Net Change in Deposits			Amounts Deposited[2]	With-drawals	Net Change in Deposits		
			Excluding Interest	Incl. Interest				Excluding Interest	incl. Interest	
				Amt.	%				Amt.	%
Connecticut	908,947	943,833	—34,886	34,121	.27	727,680	674,995	52,685	104,911	.88
Indiana	11,659	11,818	—159	—113	—.05	5,303	6,563	—1,260	—1,260	—.60
Maine	211,550	214,892	—3,342	10,201	.44	132,906	136,609	—3,703	5,601	.26
Maryland	96,914	94,591	2,323	9,406	.63	58,693	63,320	—4,627	—869	—.06
Massachusetts	1,886,077	1,993,490	—107,413	6,931	.03	1,344,174	1,460,128	—115,954	—13,339	—.07
New Hampshire	227,302	246,505	—19,203	—7,029	—.30	174,894	182,167	—7,273	4,484	.20
New Jersey	603,947	617,436	—13,489	31,317	.39	450,577	481,437	—30,860	3,287	.04
New York—City	2,975,484	3,417,427	—441,943	—389,993	—.72	2,690,546	2,622,903	67,643	99,471	.18
—Upstate	1,515,060	1,559,364	—44,304	23,061	.11	1,022,833	1,003,245	19,588	61,143	.29
Pennsylvania	1,049,222	1,126,187	—76,965	—31,573	—.27	904,387	903,837	550	35,428	.32
Rhode Island	125,896	125,611	285	5,582	.36	92,329	96,228	—3,899	—299	—.02
Vermont	49,012	54,352	—5,340	—2,858	—.37	40,938	50,933	—9,995	—8,407	—1.17
Washington	336,161	357,137	—20,976	—19,137	—.52	247,424	251,346	—3,922	49	*
Wisconsin	5,511	5,651	—140	—22	—.03	3,114	3,363	—249	—191	—.27
All other states	228,510	227,938	572	4,648	.20	165,618	183,462	—17,844	—15,345	—.73
Total	10,231,252	10,996,232	—764,980	—325,458	—.23	8,061,416	8,120,536	—59,120	274,664	.20

Note: See notes to "Assets and Liabilities of All Mutual Savings Banks." [2] Excludes interest credited. *Less than .005%

[1] Excludes special purpose accounts such as checking, Christmas, vacation and school. Source: National Association of Mutual Savings Banks.

DEPOSIT ACTIVITY IN REGULAR ACCOUNTS IN MUTUAL SAVINGS BANKS

(Amounts in millions of dollars, accounts in thousands)

Period	Amounts Deposited	With-drawals	Net change in deposits			Number of accounts	
			Excluding interest	Including interest		Total	Net Change
				Amt.	%		
Annually							
1975	53,125	48,369	4,757	11,070	11.27	26,284	980
1976	62,429	57,147	5,283	12,269	11.23	27,533	1,151
1977	73,306	70,431	2,874	10,687	8.76	28,825	1,303
1978	91,967	92,558	—591	7,697	5.80	30,472	1,647
Monthly							
1978—Dec.	9,115	9,520	—405	1,213	.87	30,472	217
1979—Jan.	12,303	12,421	—118	218	.15	30,661	190
Feb.	7,179	6,837	342	682	.48	30,797	135
Mar.	9,350	8,887	463	1,972	1.39	30,871	74
Apr.	10,196	11,388	—1,192	—818	—.57	n.a.	n.a.
May	9,007	9,348	—341	61	.04	n.a.	n.a.
June	9,691	10,340	—649	890	.62	n.a.	n.a.
July	12,494	13,208	—714	318	.22	n.a.	n.a.
Aug.	9,825	10,329	—504	—112	—.08	n.a.	n.a.
Sept.	8,920	9,991	—1,071	484	.34	n.a.	n.a.
Oct.	12,692	14,112	—1,420	—1,031	—.71	n.a.	n.a.
Nov.	10,231	10,996	—765	—325	—.23	n.a.	n.a.
Dec. (Est.)	n.a.	n.a.	—950	800	.56	n.a.	n.a.

n.a.—not available. Est.—estimated.

Notes: Annual and monthly data for net change in deposits including interest and net change in number of accounts have been adjusted where necessary, to exclude the effects of conversions and consolidations of savings banks and other types of institutions. Amounts deposited and withdrawals include shifts of funds between ordinary and time and other higher-yield accounts. Components may not add to totals due to rounding. Source: National Association of Mutual Savings Banks.

ASSETS AND LIABILITIES OF ALL MUTUAL SAVINGS BANKS

(Amounts in millions of dollars)

Date	Mortgages	GNMAs	Investments				Other assets	Total assets-Total liabilities & gen. res. accts.	Deposits			Other liabilities	General reserve accounts
			U.S. Govt. & Federal agencies	State & local Govt.	Corporate bonds	Corporate stocks			Total*	Savings	Time		
1975 Dec. 31	77,221	3,367	7,507	1,545	17,536	4,322	9,558	121,056	109,873	69,653	39,639	2,755	8,428
1976 Dec. 31	81,630	5,808	9,109	2,417	20,335	4,381	11,131	134,812	122,877	74,535	47,426	2,884	9,052
1977 Dec. 31	88,195	8,331	9,233	2,828	21,498	4,751	12,450	147,287	134,017	78,005	54,739	3,292	9,978
1978 Dec. 31	95,157	10,021	8,297	3,333	21,566	4,807	14,991	158,174	142,701	71,816	69,354	4,565	10,907
1979 Jan. 31	95,552	10,230	8,178	3,328	21,622	4,815	15,167	158,892	142,879	69,244	72,145	5,032	10,980
Feb. 28	95,821	10,492	8,114	3,167	21,665	4,837	15,983	160,078	143,539	68,817	73,254	5,485	11,054
Mar. 31	96,136	10,669	8,187	3,126	21,767	4,849	17,132	161,866	145,650	68,829	75,213	5,048	11,167
Apr. 30	95,900	11,011	8,193	3,326	21,331	4,869	16,602	161,231	145,096	67,758	75,452	5,050	11,084
May 31	96,239	11,168	8,148	3,264	21,249	4,887	16,426	161,380	145,056	67,577	75,694	5,172	11,153
June 30	96,743	11,230	8,029	3,175	21,174	4,877	16,586	161,814	146,057	68,104	76,057	4,545	11,212
July 31	97,238	11,275	7,992	3,154	20,994	4,902	17,042	162,598	145,757	67,537	76,306	5,577	11,264
Aug. 31	97,259	11,341	7,921	3,149	20,924	4,861	17,933	163,388	145,713	66,733	76,998	6,350	11,324
Sept. 30	97,973	11,422	7,891	3,150	20,835	4,819	17,341	163,431	146,252	65,676	78,572	5,791	11,388
Oct. 31	98,304	11,611	7,750	3,100	20,818	4,781	16,770	163,133	145,096	62,672	80,591	6,600	11,437
Nov. 30	98,610	11,626	7,754	3,003	20,647	4,763	16,802	163,205	144,828	61,156	81,908	6,872	11,504
Dec. 31 (Est.)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	145,728	n.a.	n.a.	n.a.	n.a.
% of Total Assets													
November 30, 1979	60.4	7.1	4.8	1.8	12.7	2.9	10.3	100.0	88.7	37.5	50.2	4.2	7.0
Change during month	300	32	20	—80	—188	—15	—60	8	—419	—1,522	1,196	357	71

Note: Balance sheet data beginning with April 30, 1979 are not strictly comparable with prior months. This largely reflects: (1) changes in FDIC reporting procedures; and (2) reclassification of certain items.

n.a.—not available. Est.—estimated. Source: National Association of Mutual Savings Banks.

* — Total deposit figures include checking, school, club and certain other accounts not shown separately.

Note: GNMA figures refer to all types of mortgage-backed securities guaranteed by the Government National Mortgage Association.

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Official publication of the National Association of Mutual Savings Banks

Volume 61 March 1980 Number 1

Why VRM Lenders Are Shifting Gears

OPERATIONS CONFERENCE REPORT

Annual Conference Goes to Florida

Industry's 100 LARGEST

Mutual Stays In-House for Service-Package Audit

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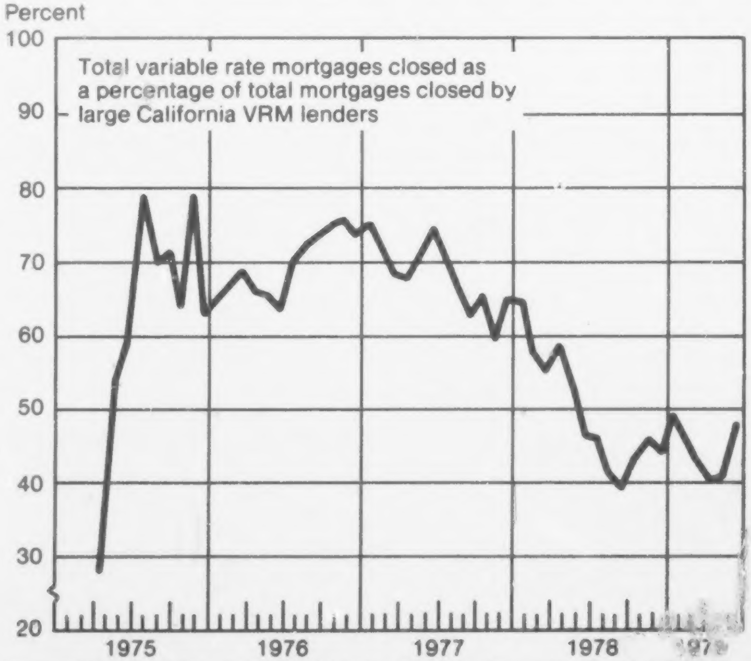
Shifting Gears in VRM Lending

Lender interest in VRMs has ebbed somewhat in an economic environment for which this mortgage instrument was designed. . . . Why this is happening . . . and why the VRM and its variant—the renewable rate mortgage—still are considered viable home-financing techniques are what this article is about.

THE USEFULNESS of the conventional fixed-rate level-payment mortgage contract as a lending instrument for financing home ownership has been increasingly questioned in the past decade of inflation and soaring interest rates. This has led to a multitude of alternative mortgage designs, none of which has had more fervent lender support than variable rate mortgages (VRMs). Yet, even as authority to write VRMs has been extended nationwide and mortgage rates continue to climb, interest in this instrument appears to be waning for the time being. The underlying reasons relate primarily to: (1) yield and marketing concerns; (2) secondary mortgage market considerations; and (3) changing economic circumstances.

This article will review these developments and assess their implications for savings banks. Our analysis begins with a comparison of recent VRM activity and practices in the two major VRM markets in the country, proceeds with the potential effects of recent federal regulations on savings bank VRM capacity, and is followed by a discussion of the general impact of current regulations and marketing policies on the profitability of VRMs. Finally, it examines the outlook for VRMs and for the renewable-rate mortgage in light of these developments.

The distinctive feature of the VRM is a variable interest rate tied to an index that changes in accordance with economic and credit conditions. For this reason, VRMs are viewed by lenders as protection in periods of sharply rising interest rates since they enable: (1) income to more closely match the rising cost of loanable funds, thereby helping to relieve the liquidity and earnings problems inherent in the "borrow short, lend long" syndrome of mortgage lending thrift institutions; and (2) mortgage portfolio yields to



Source: William C. Melton and Diane Heidt, "Variable Rate Mortgages", Quarterly Review, Summer 1979, Federal Reserve Bank of New York.

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rise to levels which (in the absence of usury ceilings) help to keep deposit rates competitive with other money market instruments.

Borrowers, on the other hand, are generally skeptical of VRMs in periods of rapidly rising interest rates, because interest rate risks will be shifted to them.

VRM activity in the U.S. has been of relatively recent origin, with significant experience beginning only in 1975. The most widespread use of these loans has been in California, where the volume of VRM lending has far exceeded that of the other states combined. Over $18.5 billion in VRMs, accounting for a significant portion of mortgage activity in California, has been originated in the state so far.

A second nucleus of VRM activity has been in the New England states—notably Massachusetts—where about $1 billion of VRMs and quasi-VRMs, namely three- to five-year rollovers (ROMs), were written, primarily by savings banks. Interestingly, in these states the ROM predominated 3-to-1 over the standard VRM.

California Experience

The success of VRMs in California can be attributed to a booming housing market in several key areas, triggered by heavy population inflows and extensive speculative activity, while in New England the competitive pressures of a weaker mortgage market intensified VRM marketing problems. Lenders offering both VRMs and ROMs in the New England states said that their customers preferred the fixed-rate mortgage even when the initial VRM rate was lowered by one-quarter to one-half of a percentage point.

Apart from these regional concentrations, there has been relatively little VRM activity elsewhere in the country, primarily because of legal barriers. Few states specifically prohibit VRMs, but they are effectively prohibited in many states by bans on increases in interest rates or mortgage payments above those that are specified in the original contract.

In a major development, VRM authorization was extended nationwide in early 1979 to federally chartered savings and loan associations by the Federal Home Loan Bank Board, effective July 1, after the Board had first limited this authority to California federals in January 1979. While the Bank Board's nationwide VRM regulations do not directly apply to mutual savings banks, the guidelines, nevertheless, have major implications for the industry.

Comparisons of VRM Practices

In general, VRMs can only be written with certain regulatory restraints on the frequency and magnitude of changes in the interest rate and with certain other restrictions, thereby reducing their utility to lenders. However, the savings bank regulatory climate in New England has been generally more lender-oriented than California's, despite the former's weaker mortgage markets.

In contrast to California's limitation on rate increases to a total of 2.5% over the life of the loan, VRM lenders in New England are not legally required to set a cap on rate increases over the life of the mortgage, although in Massachusetts voluntary lender guidelines have been established governing the issuance of variable rate mortgages. Neither are lenders required in New England, as they are in California, to lengthen maturity of the loan as an alternative to rate increases. Moreover, New England lenders are not restricted to the more sluggish California-type cost-of-funds index, but may choose from among a few alternatives. Most use a more volatile mortgage rate series, thereby permitting greater flexibility in mortgage payments.

In the view of some observers, the absence of a cap on rates, and of requirements for maturity extension and indexation to current mortgage rates, means that VRM borrowers in New England are exposed to more interest rate risk than their California counterparts. As a result, New England lenders must offer more attractive VRM rate discounts from the fixed-payment mortgage rate than VRM lenders in California. But an even more important reason for the discount, in our view, is the competitive pressures in a traditionally "capital-surplus" area, such as New England. Thus, the initial discount in New England tends to be a market-determined ½ of 1% below the fixed-payment rate. Evidence that the discount, indeed, is market-determined recently came from the FHLB of Boston, which reported that in New England a 1% rate discount produced very heavy VRM volume and that a ½ of 1% discount appeared to be significantly successful, while a ¼ of 1% rate discount generated some, but not much, VRM volume. In California, the VRM rate has been the same as on fixed-payment mortgages or, in some instances, up to ¼ of 1% less.

The newest type of VRM authorized by the FHLB Board contains more

Variable Rate and Renewable Mortgages Outstanding In California and New England, 1976-1979

	December 1976		November 1978		August 1979	
VRMs	millions of dollars	number of loans	millions of dollars	number of loans	millions of dollars	number of loans
Connecticut	—	—	30	585	N.A.	N.A.
Maine	6	225	11	435	N.A.	N.A.
Massachusetts	61	2,037	140	5,090	N.A.	N.A.
New Hampshire	29	1,467	45	2,090	N.A.	N.A.
New England	96	3,729	226	8,200	260[2]	N.A.
California	5,658	N.A.	16,145[1]	250,759	18,490[3]	266,649
Renewable Mortgages						
New England	275	8,000	N.A.	N.A.	645	18,700
California	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

[1] As of Dec. 31, 1978.

[2] Estimated.

[3] As of Sept. 30, 1979.

Source: California Department of Savings and Loan; and Federal Home Loan Bank Board of Boston.

"consumer" protection clauses than either the New England or California varieties. The most significant of these protections include the following:

1. Borrowers must be given an option between a standard fixed-rate and a variable-rate loan, and must be shown a side-by-side comparison of payments on the two types of loans and a "worst case" VRM example, or a 10-year history of the index.
2. VRM rate adjustments must be tied to changes in the national average cost of funds compiled by the FHLB Board.
3. Interest rates may be changed only once a year, compared to twice a year in California and New England.
4. An institution's VRM dollar volume under the FHLBB regulations must be limited to 50% of loans originated (or purchased) in a given year, with the rest of its annual mortgage investments put into fixed-rate loans.

While these regulations apply specifically only to federally chartered S&Ls and to state-chartered S&Ls in states with a tie-in provision to the federal regulations, they have potentially significant implications for savings banks because:

- Future VRM authority in savings bank states outside of New England may be easier to obtain in the face of the FHLBB breakthrough.
- The "consumer safeguards" in the regulations are expected to serve as a model for state regulatory agencies, a model which, as noted, imposes more restrictions on lenders and, at the same time, is considered more difficult to market than the California and New England VRMs. One of the most serious marketing difficulties arises from the "worst case" or 10-year history of the index feature. Since the history of the cost-of-funds index is primarily one of increases, it may be difficult to convince a potential VRM borrower of the possibility of any future declines in the VRM rate.
- In highly competitive savings bank market areas, the FHLB Board's most recent VRM regulations may well determine the dominant type of VRM practice. For example, if federal S&Ls in conformance to these regulations offer a VRM feature that borrowers consider desirable, savings bank lenders may be compelled by competition to provide this feature in their VRMs.

Still another reason why savings banks cannot be oblivious to the FHLBB regulations relates to the secondary market. If VRMs are to be purchased in the secondary market by federal agencies—a VRM purchase program is currently under consideration at the Federal Home Loan Mortgage Corporation—the latter may require standardization of the loans along the lines of the FHLBB regulations. To sell their VRMs in the secondary market, savings banks would have to meet these requirements.

Rate and Portfolio Yield

The initial interest rate set for VRMs is an important factor in lenders' VRM experience and has been a subject of theoretical and empirical discussion. On both levels, there seems to be general agreement that the initial VRM rate is likely to be below the fixed-payment mortgage rate, all other mortgage terms being equal. This reflects the fact that, given a choice between a VRM and a fixed-rate mortgage, the borrower will opt for the more familiar fixed-rate mortgage contract.

Evidence of this is seen in the fact that VRM rate discounts of ½ of 1% prevailed throughout the nation in 1976 and, in most instances, other marketing inducements were also offered, such as assumability, open lines of credit and waiver of prepayment penalties. These features are still the norm in the New England states which, as noted earlier, are regarded as a capital-surplus mortgage market area where competition for borrowers tends to be aggressive. In California, the strong lender's market has virtually eliminated the discount.

A theoretical explanation for a lender's willingness to offer a VRM rate discount was provided by analyst Maurice Weinrobe, in a working paper published by the Board October 1978. He suggests that the discount reflects the lender's willingness to compensate the borrower in order to obtain an important characteristic of the VRM—its similarity to a short-term instrument periodically rolled over. In other words, VRMs are attractive to lenders because of the presumption that a VRM portfolio has a much more rapid change in yield than a fixed-rate mortgage portfolio.

However, it is argued that a VRM portfolio does not necessarily provide higher yields than a fixed-rate mortgage portfolio and that a favorable impact of VRMs on mortgage lenders' earnings depends on a number of factors, including the share of VRMs in the portfolio, the volatility of the VRM index and the limitations placed on variations in the VRM rate.

Borrower Characteristics

Another factor limiting the yield-impact of VRMs is the type of borrower. The borrowers attracted to VRMs at currently prevailing terms offered by savings bank lenders are typically those with short-term time horizons. They include employees of large firms who anticipate frequent transfers and others with shorter prepayment expectations than the rest of the population. These borrowers benefit from the initial discount because of the time lapse before the initial savings are erased by subsequent potential increases.

The short-term characteristics of VRM borrowers, therefore, have a detrimental effect on the portfolio yield of mortgage lenders for two reasons:

- The shorter life of VRM loans results in a high turnover mortgage program, thereby increasing administrative costs.
- Among savings bank lenders, the initial rate discount for VRMs results in a lower portfolio yield than anticipated, because by the time rate increases are due many VRMs have already been repaid. Based on a portfolio simulation using the historical record between 1965 and 1975, consultant Weinrobe showed a lower average yield for VRMs in the first four years than for comparable fixed-rate mortgages. If the VRMs stay on the books longer, the yield improves, according to this hypothesis, and the

longer the tenure, the greater the improvement.

This leads to the conclusion that, subject to the above considerations, the portfolio yield from VRMs written during the 1960s and early 1970s would have been better than for fixed-rate mortgages only if they had remained on the books for a long time. But if the VRMs were short-life mortgages, the lenders would have done better simply to have written fixed-rate mortgages at the increasingly higher rates available during the 1965-1975 period. It is for this reason that some lenders consider the ½ of 1% VRM discount too liberal. Nevertheless, although the discount reduces economic benefits to the lender, marketing concerns in states where savings banks write VRMs are likely to preserve the discount as well as other VRM inducements.

VRM Developments, Prospects

The short-run outlook for VRMs was clouded even before the Federal Reserve's drastic credit-tightening moves of October 6. Since then, the waters have become even murkier. The developments discussed above seem to indicate that VRM activity is likely to be limited, despite the new FHLB Board authorization and the anticipated acceleration of state VRM authorization. Current liquidity strains and new earnings problems of many banks are exerting pressure on lenders to invest in higher yielding fixed-rate mortgage loans.

Moreover, for savings banks preferring to write VRM contracts, state usury ceilings—now neck-and-neck with or below soaring mortgage rates in many areas—can inhibit or restrict the operation of the variable rate features of these loans. Effective Dec. 25, 1979, the Congress authorized preemption of state usury ceilings—on a three-month basis—until Mar. 31, 1980, but the continued impact of this preemption on VRM lenders depended, of course, on whether it would be extended. Furthermore, the preemption also made fixed-rate mortgages more attractive than they were.

Still another drawback to the writing of VRM loans under current financial conditions is the fact that, notwithstanding a few exceptions, these instruments are currently not being traded in the secondary mortgage market. The Federal Home Loan Mortgage Corporation, as noted earlier, is in the process of structuring a VRM purchase program. This, however, is not expected to be in place before mid- to late-1980. While mutual savings banks are not major sellers of mortgages in the secondary market, this market is, nevertheless, an important potential source of funds. Because the secondary market primarily deals in fixed-rate mortgages, lenders have found that the investment climate for VRM loans is not exceptionally promising. (As a matter of fact, California S&Ls began shifting from VRMs to fixed-rate mortgages in mid-1977, reportedly for sales in the secondary market. Reflecting this trend in California, the proportion of VRMs to fixed-rate mortgages—which had exceeded two-thirds of the mortgage portfolios of the state's lenders originating VRMs—dropped to about 40% in 1979 (see chart, page 47).

Finally, savings bank lenders, like others, have become less eager to make VRMs, because they want to lock in the current record yields available on fixed-rate mortgages. Even some savings banks that have VRM authority and have accumulated portfolios of VRM mortgages have completely stopped writing these contracts. This trend was given even stronger impetus by, as noted before, the recent preemption of state usury ceilings which provided relief from unduly restrictive rate limitations, and was especially needed in savings bank states such as New Jersey and New York.

VRM Outlook

Nevertheless, despite the recent moves away from VRMs, the VRM concept still holds much promise for savings banks, particularly in an environment characterized by increasing instability of the financial system. The recent Federal Reserve shift in policy has resulted in rapid and unexpected changes in interest rates. At the same time, the regulatory environment associated with the mortgage finance structure is changing. Federal legislation providing for a 10-year phaseout of deposit rate ceilings already has been passed by the Senate, some deposit rate differentials between commercial banks and thrift institutions have been eliminated, and time deposit rates are becoming increasingly linked to the open market.

Thus, although certain short-run considerations may make VRMs currently less appealing, the concept of floating rates is still likely to be viewed favorably as a long-run hedge over the entire interest rate cycle. In fact, this concept was reaffirmed by the FHLBB at the end of 1979 when it proposed a regulation that would permit federal S&Ls to offer a VRM variant—the renegotiated-rate mortgage (RRM)—similar to the Canadian "rollover" mortgage (ROM) as a more feasible solution to the long-run problem of revenue flexibility than the VRM authorized earlier last year.

Indeed, the regulations that were proposed for the RRMs differ from the Board's VRM rules in several ways: They double allowable rate increases over the life of the mortgage; eliminate the requirement to offer the fixed-rate mortgage as an option; and remove the limitation on the proportion of these mortgages that could be purchased or held in portfolio.

In particular, the new mortgage would feature:

- Interest-rate review of the loan at three-to-five year intervals, with guaranteed renewal at either the then-current market rate or a rate linked to a national index.

- A maximum rate increase or decrease of 50 basis points per year in each loan period, not to exceed 500 basis points over the life of the mortgage.
- Borrower payment of the "nominal" costs of preparing documents connected with the renewal of the loan at each renewal period.

Compares Renewable Loans

Although the FHLBB-authorized RRMs and the type currently utilized in Canada are similar, there are some structural differences in the two instruments worth noting. The Canadian type is a short-term loan with payments computed over a long-term (25 years or more) amortization period and loan terms subject to renegotiation at the end of each loan period—usually five years. Refinancing by the lender is not guaranteed and the borrower bears the risk of non-renewal. The FHLBB version is a full-term mortgage with a three- or five-year rate review specified in the contract.

Interestingly, the Canadian five-year renewable loan, although dating back to the 1930s, became widespread in Canada only in the past decade when accelerating inflation stimulated a search for a loan instrument which would maintain its value as prices rose. It was authorized shortly after a five-year term deposit was adopted by Canadian depository institutions, enabling them to precisely match their assets and liabilities. Even with the differences in the two countries' financial systems, one lesson we can learn from the Canadian experience would seem to be that the five-year rollover is a viable instrument and offers a method of dealing with mortgage financing in an unstable inflationary environment. The FHLBB had considered authorizing the Canadian ROM for federal S&Ls, but feared that lien problems could arise under local law when the entire loan and mortgage was renegotiated. The Board tried to avoid this problem by proposing a short-term loan secured by a long-term mortgage.

Both Types Used

Both the Canadian and FHLBB type of periodically renewable mortgages have been used by savings banks in New England where, as noted earlier, they have been favored over the VRM instrument 3-to-1. This preference appears to reflect the feeling that the renewable mortgage is more easily explained to prospective borrowers and requires less sophisticated billing procedures.

The FHLBB regulation for the RRM provided for a 60-day comment period. If the regulation is adopted without major modification, it may have even broader implications for savings banks than the Board's earlier VRM authorization. This is because, first, some industry leaders would like to break with the long tradition and acceptance of the fixed-rate mortgage in general. They see the traditional asset-liability balance of thrift institutions jeopardized by indexing on the liability side, with CDs tied to Treasury obligations, unless the thrifts have the same flexibility on the asset side. And, second, they believe the renewable mortgage is superior to the standard VRM because it combines rate variability with a substantial amount of stability that could be more attractive to borrowers.

There are others in the industry who see variable mortgages of any type as supplements, not substitutes, to the fixed-rate mortgage loan, and they favor a complete array of mortgages, to serve both lender and borrower.

(END)

100 Largest Savings Banks...

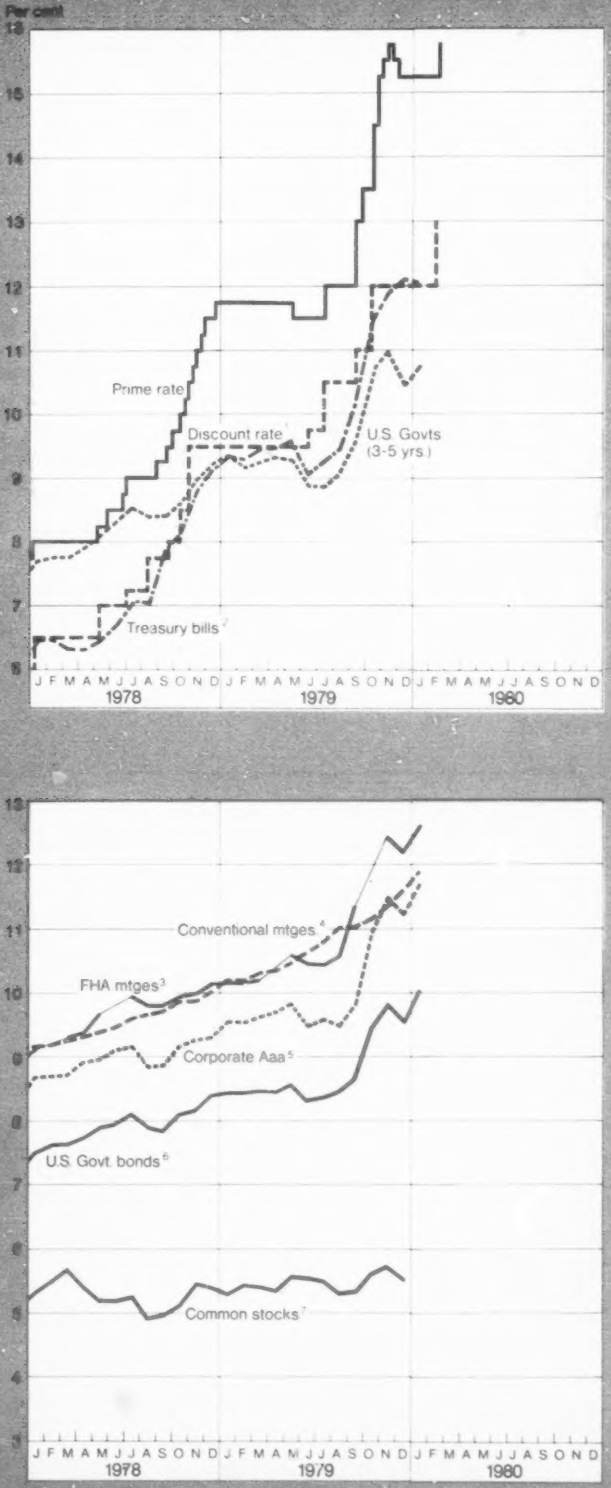
...ranked by year-end deposits

Rank on 12-31-79		Deposits in thousands of dollars	Rank on 6-30-79
1.	The Philadelphia (Pa.) Saving Fund Society	$5,898,704	1.
2.	The Bowery Savings Bank, New York City	4,654,879	2.
3.	The Dime Savings Bank of New York, New York City	4,348,457	3.
4.	The New York Bank for Savings, New York City	3,187,973	4.
5.	Emigrant Savings Bank, New York City	3,011,079	5.
6.	Dollar Savings Bank of New York, New York City	2,476,496	6.
7.	The Howard Savings Bank, Newark, N.J.	2,410,246	7.
8.	Buffalo (N.Y.) Savings Bank	2,289,064	8.
9.	The Manhattan Savings Bank, New York City	2,136,619	10.
10.	The Western Saving Fund Society of Philadelphia, Pa.	2,133,754	11.
11.	Dry Dock Savings Bank, New York City	2,128,658	9.
12.	The Williamsburgh Savings Bank, New York City	1,974,061	12.
13.	Erie Savings Bank, Buffalo, N.Y.	1,876,265	15.
14.	The Greenwich Savings Bank, New York City	1,868,669	13.
15.	Washington Mutual Savings Bank, Seattle	1,853,098	16.
16.	The Lincoln Savings Bank, New York City	1,850,401	14.
17.	People's Savings Bank-Bridgeport, Conn.	1,728,250	18.
18.	Metropolitan Savings Bank, New York City	1,723,185	17.
19.	The Seamen's Bank for Savings, New York City	1,597,313	19.
20.	The Greater New York Savings Bank, New York City	1,579,362	20.
21.	Anchor Savings Bank, New York City	1,494,680	21.
22.	East River Savings Bank, New York City	1,485,117	22.
23.	Beneficial Mutual Savings Bank, Philadelphia, Pa.	1,436,316	25.
24.	Society for Savings, Hartford, Conn.	1,408,737	23.
25.	Franklin Savings Bank of New York, New York City	1,401,920	24.
26.	The Brooklyn Savings Bank, New York City	1,367,561	26.
27.	Jamaica Savings Bank, New York City	1,330,382	27.
28.	Germantown Savings Bank, Bala-Cynwyd, Pa.	1,170,601	29.
29.	Union Dime Savings Bank, New York City	1,148,984	28.
30.	Albany (N.Y.) Savings Bank	1,145,186	30.
31.	Dollar Savings Bank, Pittsburgh, Pa.	1,108,900	31.
32.	The Community Savings Bank, Rochester, N.Y.	1,082,754	32.
33.	Hudson City Savings Bank, Jersey City, N.J.	1,047,424	33.
34.	Schenectady (N.Y.) Savings Bank	996,181	36.
35.	The Green Point Savings Bank, New York City	989,296	34.
36.	The Long Island Savings Bank, New York City	981,505	35.
37.	Independence Savings Bank, New York City	937,027	37.
38.	Ridgewood Savings Bank, New York City	920,306	39.
39.	The Provident Institution for Savings, Boston, Mass.	902,573	38.
40.	The East New York Savings Bank, New York City	887,920	41.
41.	The Western New York Savings Bank, Buffalo, N.Y.	874,424	43.
42.	The Boston (Mass.) Five Cents Savings Bank	869,380	40.
43.	The Savings Bank of Baltimore, Md.	856,052	46.
44.	The Farmers and Mechanics Savings Bank, Minneapolis, Minn.	851,714	42.
45.	United Mutual Savings Bank, New York City	792,071	45.
46.	Rochester (N.Y.) Savings Bank	791,991	47.
47.	Onondaga Savings Bank, Syracuse, N.Y.	791,524	48.
48.	Peoples Westchester Savings Bank, Tarrytown, N.Y.	786,352	51.
49.	Central Savings Bank, New York City	783,754	44.
50.	Eastern Savings Bank, New York City	740,381	50.
51.	Harlem Savings Bank, New York City	740,367	49.

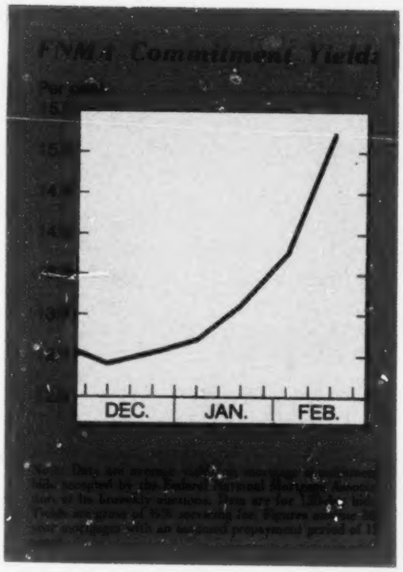
As a group, the nation's 100 largest savings banks experienced a 0.7% decline in total deposits during the last six months of 1979. At year-end, deposits at these institutions totaled nearly $107.4 billion, compared to the $108.1 billion in deposits they held at midyear.

Rank on 12-31-79		Deposits in thousands of dollars	Rank on 6-30-79
52.	Syracuse (N.Y.) Savings Bank	735,900	53.
53.	Charlestown Savings Bank, Boston, Mass.	721,661	52.
54.	The New Haven (Conn.) Savings Bank	707,293	57.
55.	Roosevelt Savings Bank, New York City	695,934	54.
56.	Connecticut Savings Bank, New Haven	692,685	55.
57.	Wilmington (Del.) Savings Fund Society	683,148	58.
58.	The Queens County Savings Bank, New York City	668,780	56.
59.	Hamburg Savings Bank, New York City	664,938	60.
60.	Empire Savings Bank, New York City	663,937	59.
61.	The Morris County Savings Bank, Morristown, N.J.	645,882	61.
62.	Provident Savings Bank, Jersey City, N.J.	623,384	62.
63.	Richmond Hill Savings Bank, New York City	611,651	64.
64.	Suffolk Franklin Savings Bank, Boston, Mass.	575,281	63.
65.	Citizens Savings Bank, Providence, R.I.	571,547	65.
66.	Provident Savings Bank of Baltimore, Md.	560,634	66.
67.	Fidelity Mutual Savings Bank, Spokane, Wash.	552,092	67.
68.	The Roslyn (N.Y.) Savings Bank	548,968	68.
69.	The Banking Center, Waterbury, Conn.	536,643	69.
70.	North Side Savings Bank, New York City	509,177	70.
71.	The Binghamton (N.Y.) Savings Bank	504,435	73.
72.	United States Savings Bank of Newark, N.J.	502,226	74.
73.	The Dime Savings Bank of Williamsburgh, New York City	494,666	71.
74.	Mutual Bank For Savings, Newton, Mass.	483,233	72.
75.	Springfield (Mass.) Institution for Savings	463,916	75.
76.	Staten Island Savings Bank, New York City	462,981	77.
77.	The Savings Bank of Utica, N.Y.	459,463	78.
78.	The Poughkeepsie (N.Y.) Savings Bank	447,792	79.
79.	American Savings Bank, New York City	445,940	76.
80.	Mechanics and Farmers Savings Bank, Bridgeport, Conn.	443,370	81.
81.	Monroe Savings Bank, Rochester, N.Y.	439,165	80.
82.	Worcester (Mass.) County Institution for Savings	435,050	84.
83.	Orange (N.J.) Savings Bank	426,319	83.
84.	Bloomfield (N.J.) Savings Bank	425,404	82.
85.	The Permanent Savings Bank, Niagara Falls, N.Y.	416,559	85.
86.	Maine Savings Bank, Portland	412,626	89.
87.	American Savings Bank, New Britain, Conn.	405,842	92.
88.	South Boston Savings Bank, Boston, Mass.	405,587	88.
89.	Lincoln Mutual Savings Bank, Spokane, Wash.	399,512	87.
90.	Eastchester Savings Bank, Mount Vernon, N.Y.	398,705	86.
91.	The Home Savings Bank, White Plains, N.Y.	393,417	91.
92.	Amoskeag Savings Bank, Manchester, N.H.	388,519	93.
93.	Union Warren Savings Bank, Boston, Mass.	385,797	90.
94.	Mechanics Savings Bank, Hartford, Conn.	376,143	96.
95.	Home Savings Bank, Boston, Mass.	369,916	94.
96.	New Brunswick (N.J.) Savings Bank	366,484	97.
97.	The Perth Amboy (N.J.) Savings Institution	358,758	99.
98.	Cambridge (Mass.) Savings Bank	351,824	95.
99.	Burlington (Vt.) Savings Bank	346,299	98.
100.	Peoples Savings Bank, Worcester, Mass.	335,610	100.
	Total deposits, 100 largest	$107,363,006	
	Total deposits, all savings banks	$145,854,882	

SBJ Money and Capital Market Yield Trends



[1] Federal Reserve Bank of New York. [2] Three months, new issue rate. [3] Average secondary market yield on new construction: sec. 203, 30-year maturity, 15-year pre-payment and minimum down-payment. [4] Effective rate for purchase of new single-family homes. [5] New issues. [6] Maturing or callable in 10 years or more. [7] Standard & Poor's 500 stocks dividend-yield ratio.



Note: Data are average yields on mortgage commitmen bids accepted by the Federal National Mortgage Associa tion at its biweekly auctions. Data are for 120-day [illegible] Yields are gross of 3/8% servicing fee. Figures assume 30 year mortgages with an assumed prepayment period of 1

DEPOSIT ACTIVITY IN REGULAR ACCOUNTS IN MUTUAL SAVINGS BANKS,[1] BY STATES

(Amounts in thousands of dollars)

State	December 1979					December 1978				
	Amounts Deposited[2]	With-drawals	Net Change in Deposits			Amounts Deposited[2]	With-drawals	Net Change in Deposits		
			Excluding Interest	Incl. Interest				Excluding Interest	Incl. Interest	
				Amt.	%				Amt.	%
Connecticut	772,663	855,760	—83,097	—10,178	—.08	745,109	767,161	—22,052	69,555	.58
Indiana	9,336	9,116	220	1,699	.77	7,602	8,230	—628	1,227	.59
Maine	202,547	216,051	—13,504	783	.03	144,217	156,566	—12,349	233	.01
Maryland	72,764	73,203	—439	6,211	.41	58,596	59,503	—907	1,771	.13
Massachusetts	1,787,577	1,963,979	—176,402	—62,642	—.31	1,622,420	1,690,620	—68,200	46,281	.23
New Hampshire	196,663	219,783	—23,120	—9,950	—.43	188,040	205,532	—17,492	—10,191	—.46
New Jersey	524,608	572,231	—47,623	2,134	.03	588,644	550,741	37,903	84,449	1.14
New York—City	2,859,831	3,306,020	—446,189	384,075	.72	2,934,516	3,179,817	—245,301	582,605	1.08
—Upstate	1,354,086	1,457,022	—102,936	192,981	.88	1,191,599	1,233,993	—42,394	210,286	1.00
Pennsylvania	1,511,175	1,514,915	—3,740	112,228	.95	1,049,447	1,038,640	10,807	125,779	1.13
Rhode Island	95,847	106,326	—10,479	2,786	.18	112,790	109,886	2,904	16,938	1.15
Vermont	43,388	48,592	—5,204	2,379	.31	39,153	37,936	1,217	26,757	3.77
Washington	290,408	321,651	—31,243	30,990	.84	259,192	281,596	—22,404	33,993	.94
Wisconsin	5,410	5,560	—150	328	.43	3,204	3,672	—468	91	.13
All other states	199,767	242,128	—42,361	8,628	.46	170,561	196,217	—25,656	22,913	1.10
Total	9,926,070	10,912,337	—986,267	662,452	.46	9,115,090	9,520,110	—405,020	1,212,687	.87

Note: See notes to "Assets and Liabilities of All Mutual Savings Banks." [2] Excludes interest credited.

[1] Excludes special purpose accounts such as checking, Christmas, vacation and school. Source: National Association of Mutual Savings Banks.

DEPOSIT ACTIVITY IN REGULAR ACCOUNTS IN MUTUAL SAVINGS BANKS

(Amounts in millions of dollars, accounts in thousands)

Period	Amounts Deposited	With-drawals	Net change in deposits			Number of accounts	
			Excluding interest	Including interest			
				Amt.	%	Total	Net Change
Annually							
1975	53,125	48,369	4,757	11,070	11.27	26,284	980
1976	62,429	57,147	5,283	12,269	11.23	27,533	1,151
1977	73,306	70,431	2,874	10,687	8.76	28,825	1,303
1978	91,967	92,558	—591	7,697	5.80	30,472	1,647
1979	121,994	128,955	—6,962	2,492	1.77	n.a.	n.a.
Monthly							
1979—Jan.	12,303	12,421	—118	218	.15	30,661	190
Feb.	7,179	6,837	342	682	.48	30,797	135
Mar.	9,350	8,887	463	1,972	1.39	30,871	74
Apr.	10,196	11,388	—1,192	—818	—.57	n.a.	n.a.
May	9,007	9,348	—341	61	.04	n.a.	n.a.
June r.	9,719	10,353	—635	1,009	.70	n.a.	n.a.
July r.	12,630	13,363	—733	—337	—.23	n.a.	n.a.
Aug. r.	9,829	10,333	—504	—92	—.06	n.a.	n.a.
Sept. r.	8,924	9,996	—1,072	487	.34	n.a.	n.a.
Oct. r.	12,699	14,120	—1,421	—1,028	—.71	n.a.	n.a.
Nov.	10,231	10,996	—765	—325	—.23	n.a.	n.a.
Dec.	9,926	10,912	—986	662	.46	n.a.	n.a.
1980—Jan. (Est.)	n.a.	n.a.	—1,400	—975	—.68	n.a.	n.a.

n.a.—not available. Est.—estimated. r. revised.

Notes: Annual and monthly data for net change in deposits including interest and net change in number of accounts have been adjusted, where necessary, to exclude the effects of conversions and consolidations of savings banks and other types of institutions. Amounts deposited and withdrawals include shifts of funds between ordinary and time and other higher-yield accounts. Components may not add to totals due to rounding. Source: National Association of Mutual Savings Banks.

ASSETS AND LIABILITIES OF ALL MUTUAL SAVINGS BANKS

(Amounts in millions of dollars)

Date	Mortgages	GNMAs	Investments				Other assets	Total assets-Total liabilities & gen. res. accts.	Deposits			Other liabil-ities	General reserve accounts
			U.S. Govt. & Federal agencies	State & local Govt.	Corpo-rate bonds	Corpo-rate stocks			Total*	Savings	Time		
1975 Dec. 31	77,221	3,367	7,507	1,545	17,536	4,322	9,558	121,056	109,873	69,653	39,639	2,755	8,428
1976 Dec. 31	81,630	5,808	9,109	2,417	20,335	4,381	11,131	134,812	122,877	74,535	47,426	2,884	9,052
1977 Dec. 31	88,195	8,331	9,233	2,828	21,498	4,751	12,450	147,287	134,017	78,005	54,739	3,292	9,978
1978 Dec. 31	95,157	10,021	8,297	3,333	21,566	4,807	14,991	158,174	142,701	71,816	69,354	4,565	10,907
1979 Feb. 28	95,821	10,492	8,114	3,167	21,665	4,837	15,983	160,078	143,539	68,817	73,254	5,485	11,054
Mar. 31	96,136	10,669	8,187	3,126	21,767	4,849	17,132	161,366	145,650	68,829	75,213	5,048	11,167
Apr. 30	95,900	11,011	8,193	3,326	21,331	4,869	16,602	161,231	145,096	67,758	75,452	5,050	11,084
May 31	96,239	11,168	8,148	3,264	21,249	4,887	16,426	161,380	145,056	67,577	75,694	5,172	11,153
June 30 r.	96,761	11,213	7,995	3,163	21,201	4,870	16,673	161,876	146,194	68,113	76,167	4,477	11,205
July 31 r.	97,252	11,260	7,973	3,136	21,016	4,902	17,100	162,638	145,877	67,531	76,413	5,499	11,262
Aug. 31 r.	97,647	11,325	7,904	3,132	20,925	4,877	17,643	163,451	145,855	66,739	77,113	6,275	11,321
Sept. 30 r.	97,980	11,405	7,874	3,133	20,858	4,816	17,429	163,494	146,394	65,683	78,689	5,715	11,385
Oct. 31 r.	98,311	11,594	7,734	3,083	20,835	4,778	16,862	163,197	145,247	62,678	80,712	6,517	11,434
Nov. 30	98,610	11,626	7,754	3,003	20,647	4,763	16,802	163,205	144,828	61,156	81,908	6,872	11,504
Dec. 31	98,924	11,851	7,630	2,929	20,510	4,758	16,765	163,366	145,855	61,078	82,824	5,989	11,522
1980 Jan. 31 (Est.)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	144,805	n.a.	n.a.	n.a.	n.a.
% of Total Assets													
December 31, 1979	60.6	7.3	4.7	1.8	12.6	2.9	10.3	100.0	89.3	37.4	50.7	3.7	7.1
Change during month	141	226	—132	—74	—137	—5	—62	—42	850	—131	794	—897	5

Note: Balance sheet data beginning with April 30, 1979 are not strictly comparable with prior months. This largely reflects: (1) changes in FDIC reporting procedures; and (2) reclassification of certain items.

n.a.—not available. Est.—estimated. r. revised. Source: National Association of Mutual Savings Banks.

* — Total deposit figures include checking, school, club and certain other accounts not shown separately.

Note: GNMA figures refer to all types of mortgage-backed securities guaranteed by the Government National Mortgage Association.

Savings Bank Journal

Official publication of the National Association of Mutual Savings Banks

Volume 61 April 1980 Number 2

Compliance
It Won't
Come Easily
NAMSB
Regulation E
SEMINAR

Marketers Key on Survival Topics

Also: Congressional Action on Financial Reforms ■ More Savings Banks Seek Federal Charters ■ New York Eliminates Its Premium Campaign Restrictions ■ NAMSB Nominates New Officers ■ Annual Conference Sights on Inflation ■ State Proposes CRA Tie to Money Market Funds ■ Rates Up, Starts Down

Industry Reacts to Anti-Inflation Program

Savings Bankers
Washington Conference

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Savings Bank Journal

"More Than Sixty Years of Continuous Publication"

Volume 61

Number 2

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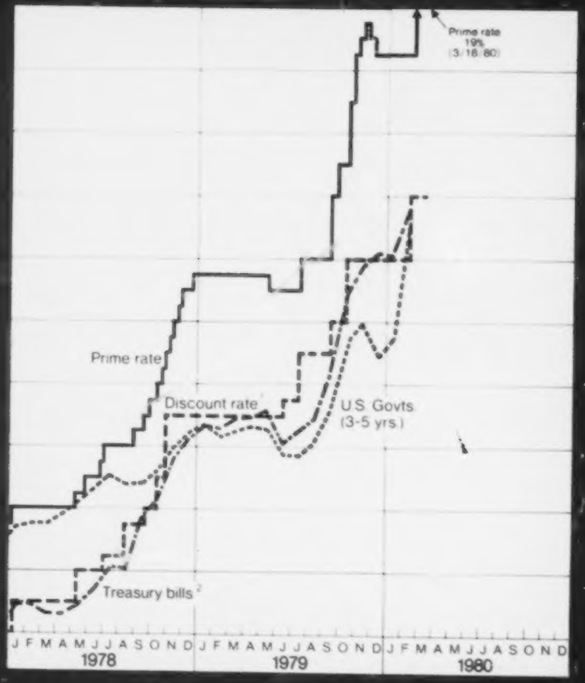
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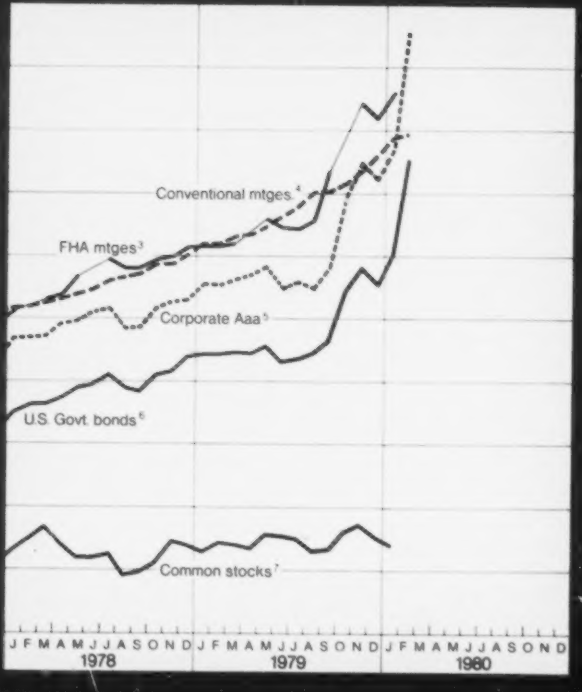
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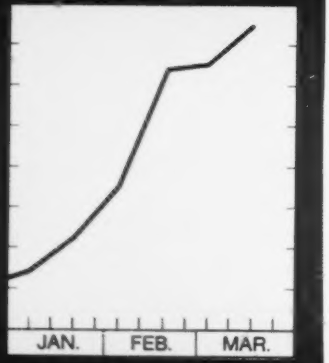

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SAVINGS BANK STATISTICS

Prepared by RESEARCH AND
ECONOMICS DEPARTMENT
NATIONAL ASSOCIATION
OF MUTUAL SAVINGS BANKS

Jack Rubinson, Director

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THE SEEMINGLY endless outflow of deposits in mutual savings banks continued in February as withdrawals exceeded deposits by $525 million, excluding interest. Although the dollar amount of the February deposit loss appeared to be an improvement over the sizable, month-to-month outflows in previous months, the industry has always, except in 1951, attracted net deposit inflows in February ever since monthly deposit data were first compiled in 1947.

Thus, the February outflow, after allowing for seasonal variation, was the worst experience on record for this normally strong deposit month. It was also the 11th consecutive month of deposit losses since April 1979, bringing the cumulative loss suffered by the industry in this 11-month period to a massive $9.5 billion.

The persistent outflow of deposits continues to reflect the record level of market interest rates which rose to unprecedented heights following Federal Reserve credit-tightening actions in early October and again in mid-February. The rise in rates stretched across the entire maturity spectrum from short-term Treasury bills to long-term bonds.

The widening spread between soaring market rates and ceiling rates permitted on passbook and other deposits intensified competitive pressures from money market mutual funds and U.S. Treasury issues as rising amounts of funds flowed into these and other higher yielding investments by increasing numbers of small investors. Thus, a record $21 billion was reported to have been invested in these funds in January alone, while in February and early March another $15 billion was invested. New Federal Reserve restrictions on money market funds, however, aim at curbing this growth by requiring them to set aside 15% of their new assets in a noninterest-bearing reserve.

In an effort to meet this competition, a number of savings banks have sought to stem withdrawals and attract more funds by paying market interest rates on deposits below the required minimum via the "loophole" certificate. This device enables the popular $10,000, 26-week money market certificate, for example, to be sold for as little as $5,000 with the balance advanced as a loan by the savings bank.

The loophole concept is also being applied to the "jumbo" $100,000

DEPOSIT ACTIVITY IN REGULAR ACCOUNTS IN MUTUAL SAVINGS BANKS,[1] BY STATES

(Amounts in thousands of dollars)

State	January 1980					January 1979				
	Amounts Deposited[2]	With-drawals	Net Change in Deposits			Amounts Deposited[2]	With-drawals	Net Change in Deposits		
			Excluding Interest	Incl. Interest				Excluding Interest	Incl. Interest	
				Amt.	%				Amt.	%
Connecticut	955,901	1,018,693	—62,792	5,184	.04	887,160	888,095	—935	52,424	.43
Indiana	18,731	18,556	175	494	.22	19,592	19,968	—376	—375	—.18
Maine	252,034	256,547	—4,513	8,384	.36	191,764	179,463	12,301	22,922	1.06
Maryland	128,012	129,100	—1,088	13,331	.88	108,039	105,696	2,343	15,567	1.16
Massachusetts	2,175,044	2,346,220	—171,176	—38,666	—.19	1,826,695	1,845,277	—18,582	92,350	.46
New Hampshire	243,078	258,076	—14,998	—25	*	219,417	213,584	5,833	12,907	.59
New Jersey	822,669	890,778	—68,109	—12,812	—.16	736,085	649,595	86,490	120,868	1.62
New York—City	4,572,749	5,494,882	—922,133	—830,258	—1.54	4,453,110	4,724,823	—271,713	—221,296	—.40
—Upstate	2,111,424	2,247,307	—135,883	—79,665	—.36	1,737,615	1,700,587	37,028	47,105	.22
Pennsylvania	1,469,478	1,474,990	—5,512	43,159	.36	1,332,745	1,299,137	33,608	70,773	.63
Rhode Island	163,028	173,637	—10,609	—6,138	—.39	134,534	129,744	4,790	7,920	.53
Vermont	74,456	69,974	4,482	8,309	1.08	53,646	54,164	—518	1,037	.14
Washington	381,746	405,994	—24,248	—20,855	—.54	387,316	387,754	—438	375	.01
Wisconsin	6,032	5,430	602	755	.98	2,335	2,598	—263	—166	—.23
All other states	252,704	273,034	—20,330	—14,255	—.65	212,946	220,262	—7,316	—4,132	—.18
Total	13,627,086	15,063,218	—1,436,132	—923,058	—.64	12,302,999	12,420,747	—117,748	218,279	:15

Note: See notes to "Assets and Liabilities of All Mutual Savings Banks." [2] Excludes interest credited. *Less than .005%.

[1] Excludes special purpose accounts such as checking, Christmas, vacation and school. Source: National Association of Mutual Savings Banks.

CD—which is exempt from rate ceilings—by permitting depositors to put up only $50,000. After deducting interest charges for the $50,000 loan, depositors in one bank recently could net a 16.25% annual return on a six-month account.

While these high-yielding CDs tied to the market substantially raise the cost of loanable funds, increasing numbers of savings banks are reluctantly offering them because competitive pressures virtually dictate it. Moreover, they are the only types of accounts which are growing, not contracting.

The escalation in inflationary and interest rate pressures has led to a new program of fiscal, monetary and incomes policy actions announced in mid-March by Administration and monetary authorities. The monetary moves—which include, among other restrictions, Federal Reserve restraints on credit-card lending, checking account overdrafts and money market funds—are not only expected to have little short-term impact on the inflation/interest rate spiral but also to propel short-term interest rates still higher in the near future and to subject savings banks with consumer credit powers to increased costs. Thus, the anti-inflationary program has not altered the basically unfavorable short-run outlook for savings banking. (END)

DEPOSIT ACTIVITY IN REGULAR ACCOUNTS IN MUTUAL SAVINGS BANKS

(Amounts in millions of dollars, accounts in thousands)

Period	Amounts Deposited	Withdrawals	Net change in deposits: Excluding interest	Net change in deposits: Including interest: Amt.	Net change in deposits: Including interest: %	Number of accounts: Total	Number of accounts: Net Change
Annually							
1975	53,125	48,369	4,757	11,070	11.27	26,284	980
1976	62,429	57,147	5,283	12,269	11.23	27,533	1,151
1977	73,306	70,431	2,874	10,687	8.76	28,825	1,303
1978	91,967	92,558	—591	7,697	5.80	30,472	1,647
1979	121,994	128,955	—6,962	2,492	1.77	n.a.	n.a.
Monthly							
1979—Feb.	7,179	6,837	342	682	.48	30,797	135
Mar.	9,350	8,887	463	1,972	1.39	30,871	74
Apr.	10,196	11,388	—1,192	—818	—.57	n.a.	n.a.
May	9,007	9,348	—341	61	.04	n.a.	n.a.
June	9,719	10,353	—635	1,009	.70	n.a.	n.a.
July	12,630	13,363	—733	—337	—.23	n.a.	n.a.
Aug.	9,829	10,333	—504	—92	—.06	n.a.	n.a.
Sept.	8,924	9,996	—1,072	487	.34	n.a.	n.a.
Oct.	12,699	14,120	—1,421	—1,028	—.71	n.a.	n.a.
Nov.	10,231	10,996	—765	—325	—.23	n.a.	n.a.
Dec.	9,926	10,912	—986	662	.46	n.a.	n.a.
1980—Jan.	13,627	15,063	—1,436	—923	—.64	n.a.	n.a.
Feb. (Est.)	n.a.	n.a.	—525	—100	—.07	n.a.	n.a.

n.a.—not available. Est.—estimated. r. revised.

Notes: Annual and monthly data for net change in deposits including interest and net change in number of accounts have been adjusted, where necessary, to exclude the effects of conversions and consolidations of savings banks and other types of institutions. Amounts deposited and withdrawals include shifts of funds between ordinary and time and other higher-yield accounts. Components may not add to totals due to rounding. Source: National Association of Mutual Savings Banks.

ASSETS AND LIABILITIES OF ALL MUTUAL SAVINGS BANKS

(Amounts in millions of dollars)

Date	Mortgages	GNMAs	Investments: U.S. Govt. & Federal agencies	Investments: State & local Govt.	Investments: Corporate bonds	Investments: Corporate stocks	Other assets	Total assets-Total liabilities & gen. res. accts.	Deposits: Total*	Deposits: Savings	Deposits: Time	Other liabilities	General reserve accounts
1975 Dec. 31	77,221	3,367	7,507	1,545	17,536	4,322	9,558	121,056	109,873	69,653	39,639	2,755	8,428
1976 Dec. 31	81,630	5,808	9,109	2,417	20,335	4,381	11,131	134,812	122,877	74,535	47,426	2,884	9,052
1977 Dec. 31	88,195	8,331	9,233	2,828	21,498	4,751	12,450	147,287	134,017	78,005	54,739	3,292	9,978
1978 Dec. 31	95,157	10,021	8,297	3,333	21,566	4,807	14,991	158,174	142,701	71,816	69,354	4,565	10,907
1979 Mar. 31	96,136	10,669	8,187	3,126	21,767	4,849	17,132	161,866	145,650	68,829	75,213	5,048	11,167
Apr. 30	95,900	11,011	8,193	3,326	21,331	4,869	16,602	161,231	145,096	67,758	75,452	5,050	11,084
May 31	96,239	11,168	8,148	3,264	21,249	4,887	16,426	161,380	145,056	67,577	75,694	5,172	11,153
June 30	96,761	11,213	7,995	3,163	21,201	4,870	16,673	161,876	146,194	68,113	76,167	4,477	11,205
July 31	97,252	11,260	7,973	3,136	21,016	4,902	17,100	162,638	145,877	67,531	76,413	5,499	11,262
Aug. 31	97,647	11,325	7,904	3,132	20,925	4,877	17,643	163,451	145,855	66,739	77,113	6,275	11,321
Sept. 30	97,980	11,405	7,874	3,133	20,858	4,816	17,429	163,494	146,394	65,683	78,689	5,715	11,385
Oct. 31	98,311	11,594	7,734	3,083	20,835	4,778	16,862	163,197	145,247	62,678	80,712	6,517	11,434
Nov. 30	98,610	11,626	7,754	3,003	20,647	4,763	16,802	163,205	144,828	61,156	81,908	6,872	11,504
Dec. 31	98,924	11,851	7,630	2,929	20,510	4,758	16,765	163,366	145,855	61,078	82,824	5,989	11,522
1980 Jan. 31	98,949	11,989	7,366	2,886	20,436	4,732	16,855	163,214	144,902	59,191	83,789	6,773	11,539
Feb. 29 (Est.)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	144,752	n.a.	n.a.	n.a.	n.a.
% of Total Assets													
January 31, 1980	60.6	7.3	4.5	1.8	12.5	2.9	10.3	100.0	88.8	36.3	51.3	4.1	7.1
Change during month	25	138	—264	—43	—73	—26	91	—152	—952	—1,888	965	784	17

Note: Balance sheet data beginning with April 30, 1979 are not strictly comparable with prior months. This largely reflects: (1) changes in FDIC reporting procedures; and (2) reclassification of certain items.

n.a.—not available. Est.—estimated. Source: National Association of Mutual Savings Banks.

* — Total deposit figures include checking, school, club and certain other accounts not shown separately.

Note: GNMA figures refer to all types of mortgage-backed securities guaranteed by the Government National Mortgage Association.

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Savings Bank Journal

Official publication of the National Association of Mutual Savings Banks

Volume 61 May 1980 Number 3

Why and How of One Bank's Federal Charter Application

MBA, Savings Bankers View Mortgage Market Fallout

Also: Supermarket Banking System Enters New York City Market ▪ Mutuals Move into Mortgage Banking ▪ Renegotiated Loans Okayed for Federal Thrifts ▪ Economic Issues Pervade Chairman's Year ▪ Interest Rates Up, Housing Starts Plummet

Step-Up in Teller Terminal Technology

Report:

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The Signing of H.R. 4986...

...and Its Ripple Effect in Savings Bank States

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Since NAMSB 1920

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Buys Control of Mortgage Firm

The $1.9 billion-assets Erie Savings Bank, Buffalo, N.Y., last month acquired majority interest in a southeastern-based mortgage banking company. As majority shareholder of Federated Financial Mortgage Corp., Erie will gain immediate access to the national secondary market.

In late March, the $1.03 billion-assets Farmers and Mechanics Savings Bank of Minneapolis announced it had formed a mortgage banking subsidiary (see box). Erie and F&M are the latest savings banks to join the move into "in-house" or affiliated mortgage banking firms; that trend was further revealed at a recent Mortgage Bankers Association meeting (see story, page 39).

Erie Savings announced its acquisition April 11, in conjunction with Federated Financial's annual meeting. Federated Financial, which is headquartered in Atlanta and has branch offices in Florida, Tennessee and South Carolina, is a seller/servicer for the Federal National Mortgage Association, an approved FHA mortgagee and issuer of GNMA securities. It has a $100 million servicing portfolio.

Erie Savings officials said the subsidiary will enable the bank to "constantly turn over our money" by having Federated Financial broker

(continued on page 56)

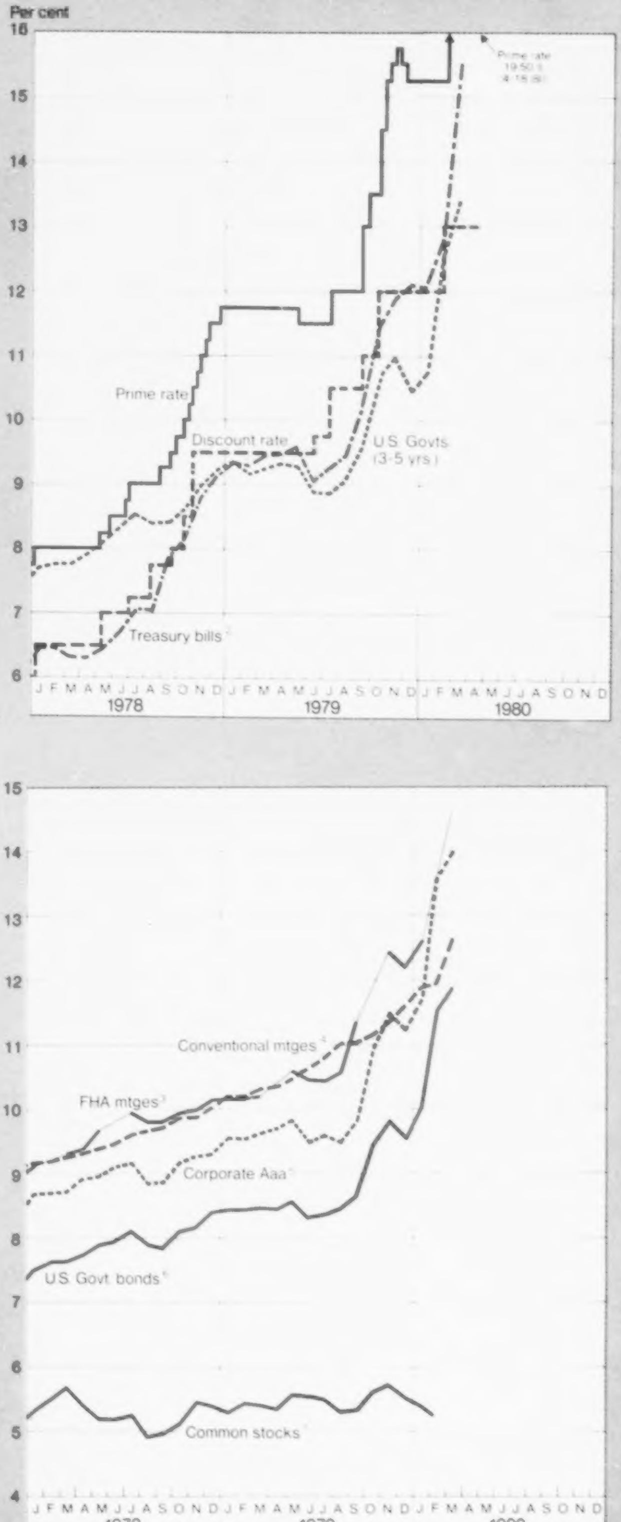
Forms Mortgage Affiliate

The Farmers and Mechanics Savings Bank of Minneapolis has formed a mortgage banking subsidiary which will originate, sell and service residential and commercial mortgages. Miles C. Babcock, F&M senior vice president, has been elected president of F&M Mortgage Corporation.

Babcock said 1980 will be a "transition period," but that by 1981, F&M Mortgage Corporation will conduct a "full range of activities" for F&M and other investors. F&M Savings Bank will continue to manage and service its $821.5 million mortgage portfolio.

F&M gained the power to create the subsidiary through 1979 state legislation.

SBJ Money and Capital Market Yield Trends



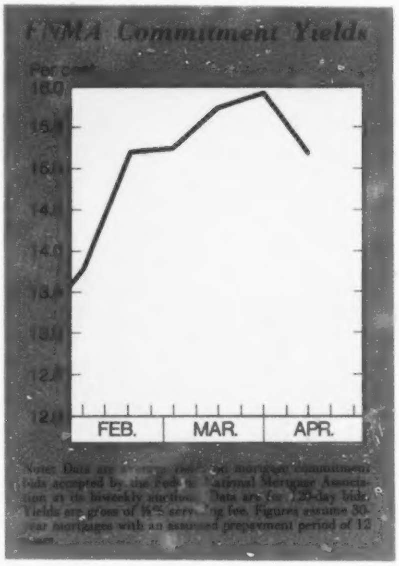
[1] Federal Reserve Bank of New York. [2] Three months, new issue rate. [3] Average secondary market yield on new construction; sec. 203, 30-year maturity, 15-year pre-payment and minimum down-payment. [4] Effective rate for purchase of new single-family homes. [5] New issues: [6] Maturing or callable in 10 years or more. [7] Standard & Poor's 500 stocks dividend-yield ratio.

Mortgaging trends

Rates push higher. The average effective interest rates on conventional mortgages for both new and existing homes rose in March to record levels, the FHLB Board reported last month. Following the upward pattern of the past several months, the average rate on loans for new homes hit 12.62% in March, from 11.93% in February. Likewise, the average rate on loans for existing homes rose to 12.89%, from February's 12.62%.

During the same period, the average term-to-maturity on conventional loans for new homes tightened considerably, to 27.4 years from 28.8 years in February. Average term-to-maturity on loans for existing homes dropped slightly to 26.8 years from February's 26.9 years.

The Board, however, reported some relief in home prices. Between February and March, the average purchase price for new homes decreased from $79,800 to $76,100; and for existing homes, from $69,300 to $68,200.



Note: Data are average [illegible] on mortgage commitment bids accepted by the Federal National Mortgage Association at its biweekly auction. Data are for 120-day bids. Yields are gross of ⅜% servicing fee. Figures assume 30-year mortgages with an assumed prepayment period of 12 [illegible]

Starts plummet. Housing starts bottomed in March at a seasonally adjusted annual rate of 1.04 million units, the lowest level since the depth of the 1974-75 recession. Starts were down a significant 22% from the robust 1.8 million starts in March 1979.

The severe drop reflected Federal Reserve credit-tightening moves last October and the Administration's anti-inflation plan unveiled in mid-March.

The Commerce Department reported last month that single-family starts in March decreased to a seasonally adjusted annual rate of 606,000 units, from 789,000 in February. Total multi-family starts declined to a seasonally adjusted annual rate of 435,000 units, from February's 553,000.

Permits also plunge. The number of building permits issued in March tumbled under the 1 million mark, with an 18% fall from the previous month. The Commerce Department reported permits at a seasonally adjusted annual rate of 941,000 units, compared with 1.14 million units in February.

Single-family building permits dropped to a seasonally adjusted annual rate of 535,000 units, from February's 695,000; total multi-family permits decreased to 406,000 units, from February's 447,000.

Hears Charter Request

The FHLB of Boston was expected at the end of April to submit its recommendation to the FHLB Board in Washington on Newport (N.H.) Savings Bank's application to convert to a federal charter, following a hearing on the application's merits.

The regional FHLB called an April 3 hearing after receiving "substantial protests" from the state's banking commissioner, and a New Hampshire bank holding company, that the proposed conversion would be in contravention of state law. Commissioner A. Roland Roberge also argued that Newport Savings had inadequate capital to support further branching, as intended after conversion.

Newport attorneys contend that a state law which enables a savings bank to convert to a federal savings and loan also enables it to convert to a federal savings bank, and that in the "complete absence" of enabling state legislation, the proposed conversion would not violate state law.

The $48.5 million-assets Newport Savings was the first savings bank in the nation to seek a federal savings bank charter (January **SBJ**, page 7), mainly to gain expanded branching powers. The protesting bank holding company plans to establish a national bank in the same area where Newport Savings intends to expand.

Buys Control—

loans to its national network of buyers. Erie previously had been drawing up mortgage packages and finding buyers on its own. Erie will continue to service its $1.3 billion mortgage portfolio.

Erie's president Paul A. Willax said Federated Financial will "improve our ability to gain access to national markets and thereby make even more mortgage funds available for local lending." He said he also "looks forward to bringing our share of the company's earnings generated in the growing southeast back for reinvestment in Buffalo."

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SAVINGS BANK STATISTICS

Prepared by RESEARCH AND
ECONOMICS DEPARTMENT
NATIONAL ASSOCIATION
OF MUTUAL SAVINGS BANKS

Jack Rubinson, Director

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IN MARCH, mutual savings banks experienced heavy deposit outflows for the twelfth consecutive month as withdrawals exceeded deposits by $750 million. This was the worst savings experience ever for this seasonally strong month and compares with the previous low point of $88 million lost in 1970.

The March outflow was significantly larger than the previous month's deposit loss of $543 million and represents a dismal contrast to the $463 million inflow recorded a year earlier and the deposit gains registered for this month in the 1973-74 disintermediation period. Furthermore, combined with heavy January and February losses, it resulted in the worst first quarter deposit experience in savings bank history.

The March experience reflects the continued severe competition from the high yields of money market mutual funds and U.S. Treasury obligations, which further intensified after Federal Reserve credit-tightening measures in mid-February drove market rates sharply higher.

In an effort to cope with this competition, savings banks in some areas have engaged in promotional campaigns offering "loophole" CDs and free gifts to attract deposits. The loophole CD enables depositors to earn the market rates available on six-month money market and "jumbo" CDs for deposits below the required $10,000 and $100,000 minima, respectively. This is accomplished by means of a bank loan for the amount needed to bring the deposit to the required total. The gift programs offer free gifts of merchandise in return for set deposit amounts, either new or added to existing accounts. It is reasonable to assume that these efforts have served to prevent a worse deposit drain in March than would otherwise have occurred.

At the same time, savings banks have continued to issue the popular six-month money market CDs at ever-increasing rates which, in the latter part of March, reached a high of 15.7%. Gains in these MMC accounts spurted upward in March, totalling $4 billion, twice the growth in each of the two preceding months and nearly equal to the record $4.2 billion increase in January 1979.

Part of the March increase was undoubtedly at the expense of regular passbook savings accounts and time accounts with ceiling rates, balances of

DEPOSIT ACTIVITY IN REGULAR ACCOUNTS IN MUTUAL SAVINGS BANKS,[1] BY STATES

(Amounts in thousands of dollars)

State	February 1980					February 1979				
	Amounts Deposited[2]	Withdrawals	Net Change in Deposits			Amounts Deposited[2]	Withdrawals	Net Change in Deposits		
			Excluding Interest	Incl. Interest				Excluding Interest	Incl. Interest	
				Amt.	%				Amt.	%
Connecticut	908,479	903,148	5,331	75,217	.59	580,936	540,256	40,680	100,086	.82
Indiana	10,821	10,883	—62	100	.04	9,825	8,932	893	895	.43
Maine	205,640	201,307	4,333	18,158	.77	133,396	128,085	5,311	15,238	.69
Maryland	137,330	110,486	26,844	33,526	2.20	63,679	50,621	13,058	18,197	1.34
Massachusetts	1,951,161	1,955,755	—4,594	107,597	.53	1,346,285	1,306,072	40,213	135,134	.67
New Hampshire	216,720	212,903	3,817	17,172	.75	156,353	148,867	7,486	21,568	.98
New Jersey	840,875	812,113	28,762	71,355	.89	427,084	400,564	26,520	57,622	.76
New York—City	2,984,060	3,415,659	—431,599	—367,234	—.69	2,103,446	2,057,554	45,892	82,771	.15
—Upstate	1,435,103	1,449,398	—14,295	61,497	.28	902,320	850,148	52,172	96,442	.45
Pennsylvania	1,138,755	1,265,480	—126,725	—78,006	—.65	950,110	866,757	83,353	118,786	1.05
Rhode Island	107,725	108,450	—725	5,332	.34	84,326	79,252	5,074	9,793	.65
Vermont	52,258	54,578	—2,320	834	.11	31,803	27,997	3,806	5,078	.69
Washington	322,539	342,292	—19,753	—16,842	—.44	263,887	252,567	11,320	12,290	.34
Wisconsin	5,053	5,044	9	103	.13	1,975	2,231	—256	—196	—.27
All other states	243,464	255,893	—12,429	—7,036	—.31	123,759	117,478	6,281	8,487	.38
Total	10,559,983	11,103,389	—543,406	—78,227	—.05	7,179,184	6,837,381	341,803	682,191	.48

Note: See notes to "Assets and Liabilities of All Mutual Savings Banks."

[2] Excludes interest credited.

[1] Excludes special purpose accounts such as checking, Christmas, vacation and school. Source: National Association of Mutual Savings Banks.

which plummeted in this period. The MMC increase may also have reflected the new federal restrictions on money market funds imposed in mid-March which required a 15% reserve on increases in their total assets. This measure has the effect of reducing yields available from many of these investments. As a result, asset growth of these funds actually declined by a substantial $1.3 billion in the four week period ending April 16 as a large number of funds stopped accepting new accounts and existing and potential shareholders adopted a more cautious approach to these instruments.

A more recent development which promises hope for an improvement in savings bank deposit trends is the sudden turnabout in interest rates. This occurred shortly after another tightening of the monetary screws in mid-March.

As part of this fourth anti-inflationary program of the Carter Administration, the monetary authorities sought to slow, with selective credit controls, the growth of bank and consumer credit. As the tight monetary policies of the past two months began to bite, short-term interest rates headed downward amid signs of a developing recession.

(END)

DEPOSIT ACTIVITY IN REGULAR ACCOUNTS IN MUTUAL SAVINGS BANKS

(Amounts in millions of dollars, accounts in thousands)

Period	Amounts Deposited	Withdrawals	Net change in deposits			Number of accounts	
			Excluding interest	Including interest		Total	Net Change
				Amt.	%		
Annually							
1975	53,125	48,369	4,757	11,070	11.27	26,284	980
1976	62,429	57,147	5,283	12,269	11.23	27,533	1,151
1977	73,306	70,431	2,874	10,687	8.76	28,825	1,303
1978	91,967	92,558	—591	7,697	5.80	30,472	1,647
1979	121,994	128,955	—6,962	2,492	1.77	n.a.	n.a.
Monthly							
1979—Mar.	9,350	8,887	463	1,972	1.39	30,871	74
Apr.	10,196	11,388	—1,192	—818	—.57	n.a.	n.a.
May	9,007	9,348	—341	61	.04	n.a.	n.a.
June	9,719	10,353	—635	1,009	.70	n.a.	n.a.
July	12,630	13,363	—733	—337	—.23	n.a.	n.a.
Aug.	9,829	10,333	—504	—92	—.06	n.a.	n.a.
Sept.	8,924	9,996	—1,072	487	.34	n.a.	n.a.
Oct.	12,699	14,120	—1,421	—1,028	—.71	n.a.	n.a.
Nov.	10,231	10,996	—765	—325	—.23	n.a.	n.a.
Dec.	9,926	10,912	—986	662	.46	n.a.	n.a.
1980—Jan.	13,627	15,063	—1,436	—923	—.64	n.a.	n.a.
Feb.	10,560	11,103	—543	—78	—.05	n.a.	n.a.
Mar. (Est.)	n.a.	n.a.	—750	850	.59	n.a.	n.a.

n.a.—not available. Est.—estimated.

Notes: Annual and monthly data for net change in deposits including interest and net change in number of accounts have been adjusted, where necessary, to exclude the effects of conversions and consolidations of savings banks and other types of institutions. Amounts deposited and withdrawals include shifts of funds between ordinary and time and other higher-yield accounts. Components may not add to totals due to rounding. Source: National Association of Mutual Savings Banks.

ASSETS AND LIABILITIES OF ALL MUTUAL SAVINGS BANKS

(Amounts in millions of dollars)

Date	Mortgages	GNMAs	Investments				Other assets	Total assets-Total liabilities & gen. res. accts.	Deposits			Other liabilities	General reserve accounts
			U.S. Govt. & Federal agencies	State & local Govt.	Corporate bonds	Corporate stocks			Total*	Savings	Time		
1975 Dec. 31	77,221	3,367	7,507	1,545	17,536	4,322	9,558	121,056	109,873	69,653	39,639	2,755	8,428
1976 Dec. 31	81,630	5,808	9,109	2,417	20,335	4,381	11,131	134,812	122,877	74,535	47,426	2,884	9,052
1977 Dec. 31	88,195	8,331	9,233	2,828	21,498	4,751	12,450	147,287	134,017	78,005	54,739	3,292	9,978
1978 Dec. 31	95,157	10,021	8,297	3,333	21,566	4,807	14,991	156,174	142,701	71,816	69,354	4,565	10,907
1979 Apr. 30	95,900	11,011	8,193	3,326	21,331	4,869	16,602	161,231	145,096	67,758	75,452	5,050	11,084
May 31	96,239	11,168	8,148	3,264	21,249	4,887	16,426	161,380	145,056	67,577	75,694	5,172	11,153
June 30	96,761	11,213	7,995	3,163	21,201	4,870	16,673	161,876	146,194	68,113	76,167	4,477	11,205
July 31	97,252	11,260	7,973	3,136	21,016	4,902	17,100	162,638	145,877	67,531	76,413	5,499	11,262
Aug. 31	97,647	11,325	7,904	3,132	20,925	4,877	17,643	163,451	145,855	66,739	77,113	6,275	11,321
Sept. 30	97,980	11,405	7,874	3,133	20,858	4,816	17,429	163,494	146,394	65,683	78,689	5,715	11,385
Oct. 31	98,311	11,594	7,734	3,083	20,835	4,779	16,862	163,197	145,247	62,678	80,712	6,517	11,434
Nov. 30	98,610	11,626	7,754	3,003	20,647	4,763	16,802	163,205	144,828	61,156	81,908	6,872	11,504
Dec. 31	98,924	11,851	7,630	2,929	20,510	4,758	16,765	163,366	145,855	61,078	82,824	5,989	11,522
1980 Jan. 31	98,949	11,989	7,366	2,886	20,436	4,732	16,855	163,214	144,902	59,191	83,789	6,773	11,539
Feb. 29	99,229	12,186	7,415	2,852	20,513	4,571	17,467	164,234	145,023	58,172	84,950	7,601	11,610
Mar. 31 (Est.)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	145,973	n.a.	n.a.	n.a.	n.a.
% of Total Assets													
February 29, 1980	60.4	7.4	4.5	1.7	12.5	2.8	10.6	100.0	88.3	35.4	51.7	4.6	7.1
Change during month	73	183	39	—42	61	—163	589	739	—100	—1,127	1,049	776	63

Note: Balance sheet data beginning with April 30, 1979 are not strictly comparable with prior months. This largely reflects: (1) changes in FDIC reporting procedures; and (2) reclassification of certain items.

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One Bank's Plan to Use Them

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Industry Survey Reveals—

Possible Mortgage Lending Upturn in Late 1980

CHART 1
GROSS MORTGAGE ACQUISITIONS OF MUTUAL SAVINGS BANKS

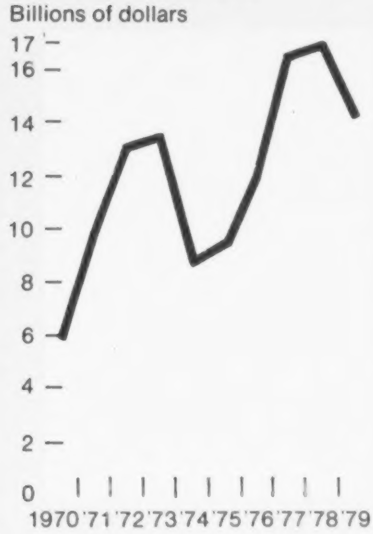
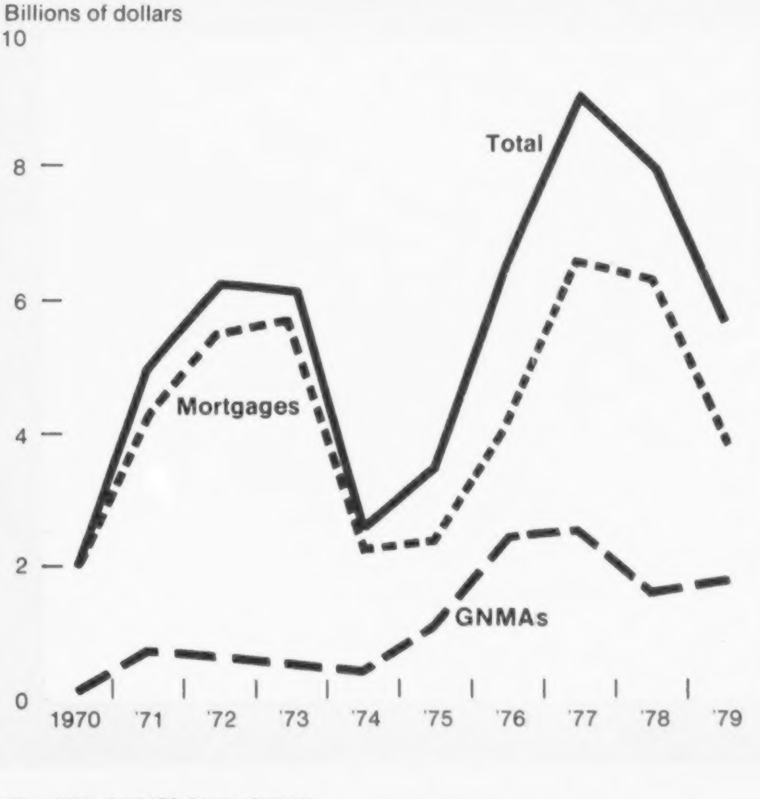


CHART 2 NET FLOW OF MORTGAGE FUNDS FROM MUTUAL SAVINGS BANKS



In a period of record deposit outflows and heightened concern over liquidity, savings bank gross mortgage flows declined from year-earlier levels during 1979. Concerning the 1980 outlook for savings bank mortgage lending activity: a modest improvement in savings bank mortgage lending activity is not expected until sometime later in the year in response to recent open-market rate declines and when deposit inflows are reestablished. These are two of the major conclusions drawn from NAMSB's 33rd annual survey on savings bank mortgage lending activity. Other important findings include the following:

- Savings bank gross mortgage acquisitions fell by $2.8 billion to $14.2 billion in 1979. This was the first time since the 1974 disintermediation period that yearly gross mortgage acquisitions have experienced an actual decline (Chart 1).
- Mortgage repayments, likewise, were also off. That portion of total cash flow attributable to the return flow of funds from outstanding mortgage portfolios totaled $9.9 billion, down from $10.6 billion in 1978 (Table 1).
- Although down in dollar terms, residential mortgage acquisitions continued to attract the bulk of mortgage funds supplied by savings banks (Table 1).
- Finally, among major savings bank states, mortgage lending patterns were generally uniform with eight of 11 major savings bank states reporting declines from year-earlier levels in gross acquisitions during 1979 (Table 2).

Underlying factors

Savings bank mortgage lending activity declined steadily throughout 1979. And this pattern continued into 1980 with no indication of possible relief until sometime later this year. Changes in data on total housing starts partly reflect this overall pattern. For example, during the January-September 1979 period, monthly total housing starts hovered in the 1.7-1.9 million unit range on an annual basis, and thereafter began a steady decline to 1 million units in March 1980.

Underlying this drop was a sharp curtailment in mortgage lending by mutual savings banks and savings and loan associations due to a weakening in inflows of investable funds. For savings

by Jack Rubinson and Philip M. Gabel

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banks, the 1979-80 disintermediation period began in April 1979 and continued into the second quarter of 1980. For 1979, as a whole, savings banks experienced a $7 billion deposit outflow, excluding interest, an amount equal to 5% of outstanding deposits. This was far in excess of the modest $591 million deposit outflow reported for 1978. And relative to the 1974 disintermediation experience, the 1979 deposit outflow was more than double the deposit loss reported for that year. Interestingly, 1974 was also the only previous year in recent history in which savings bank gross mortgage lending experienced an actual year-to-year decline.

That savings banks sustained such outflows was partly due to the ineffectiveness of the six-month CD in attracting sufficient new deposits to offset withdrawals from lower yielding existing passbook and time accounts. This difficulty resulted from: (1) increased commercial bank competition after the elimination of the thrift institution differential on six-month CDs when six-month Treasury bill rates are above 9%; and (2) intense competition from low-denomination, high-yield money market funds.

Consumer Demand

Strong consumer housing demand also influenced mortgage lending trends throughout most of 1979. Consumer home purchases remained high in the increasingly hostile financial environment, partly due to the "buy now" attitude which took hold among consumers. To a large degree this new orientation was caused by: (1) an unacceptably high general level of inflation, which gave little indication of declining; (2) residential mortgage interest rates which rose steadily to the 16%-17% range by early 1980; (3) a 14% increase in existing home prices during 1979; and (4) steady increases in required mortgage down payments as available supplies shrank. To a certain extent, however, consumers were able to offset these factors by: using accumulated equities to finance new home purchases, supplementing family income with both spouses working and, in some areas, through expanded reliance on variable rate and graduated payment mortgages.

The consumer's ability to adjust, however, has its limitations. And these became obvious during early 1980, as the prime rate reached 20%, new housing starts continued to decline and savings banks sustained a $2.7 billion deposit outflow, excluding interest, for the January-March period. Interest

Table 1: Mortgage Loan Portfolio Activity of Mutual Savings Banks

(In millions of dollars)

Year	Loans held at beginning of year	Activity during year: Loans acquired	Activity during year: Repayments	Activity during year: Net gain	Loans held at end of year
		Total Mortgage Loans			
1971	57,909	9,915	5,735	4,180	61,984
1972	61,984	12,939	7,413	5,526	67,563
1973	67,563	13,283	7,641	5,643	73,231
1974	73,231	8,740	6,568	2,172	74,891
1975	74,891	9,396	7,067	2,329	77,221
1976	77,221	11,912	7,814	4,097	81,630
1977	81,630	16,527	10,054	6,473	88,195
1978	88,195	16,928	10,601	6,327	95,157
1979	95,157	14,170	9,906	4,263	99,671
		FHA Loans			
1971	16,091	1,493	1,189	304	16,274
1972	16,274	1,641	1,585	56	16,338
1973	16,338	1,149	1,731	—583	15,756
1974	15,756	757	1,515	—757	14,883
1975	14,883	1,106	1,464	—358	14,525
1976	14,525	1,327	1,485	—157	14,371
1977	14,371	1,290	1,474	—183	14,187
1978	14,187	1,424	1,441	—17	14,203
1979	14,203	1,200	1,572	—372	13,839
		VA Loans			
1971	12,018	1,026	918	108	12,080
1972	12,080	1,773	1,198	575	12,664
1973	12,664	1,567	1,296	271	12,935
1974	12,935	814	1,017	—203	12,683
1975	12,683	707	787	—81	12,602
1976	12,602	927	1,355	—428	12,179
1977	12,179	1,147	1,393	—246	11,933
1978	11,933	1,171	1,309	—137	11,824
1979	11,824	756	1,183	—427	11,403
		Conventional Residential Loans			
1971	21,831	5,193	2,556	2,637	24,530
1972	24,530	7,077	3,973	3,103	27,666
1973	27,666	8,042	3,783	4,259	31,951
1974	31,951	5,459	3,292	2,167	33,895
1975	33,895	5,780	3,708	2,072	35,967
1976	35,967	7,599	3,807	3,792	40,035
1977	40,035	11,791	5,569	6,222	46,353
1978	46,353	12,260	6,277	5,983	52,855
1979	52,855	10,653	5,909	4,744	57,821
		Non-Residential Loans			
1971	7,969	2,203	1,072	1,131	9,100
1972	9,100	2,449	656	1,792	10,895
1973	10,895	2,525	830	1,695	12,590
1974	12,590	1,710	744	966	13,430
1975	13,430	1,804	1,108	696	14,126
1976	14,126	2,058	1,167	890	15,045
1977	15,045	2,299	1,618	681	15,722
1978	15,722	2,073	1,574	499	16,275
1979	16,275	1,561	1,242	318	16,608

NOTE: Data on mortgage activity of mutual savings banks used throughout this study are gross of valuation reserves. Net gains have been adjusted (1) for conversions of different institutions for the years 1971-1979; and (2) to take account of new reporting procedures adopted as of December 31, 1971 regarding industry holdings of GNMA guaranteed mortgage-backed securities. Source: National Association of Mutual Savings Banks.

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rates, however, appeared to peak during mid-March and at last the economy seemed to slip into the long anticipated general business recession. And these events, coupled with a decline in the rate of inflation, may signal the beginning of the end for the longest and most severe savings bank disintermediation period on record, and an eventual housing recovery.

Housing Recession

While the housing recession clearly began before the general business recession, the duration and severity of the current housing downturn remains uncertain. Clearly, the magnitude of the national business recession will exert a strong influence on the length of the housing downturn. But a turnaround in housing will also depend on a genuine decline in mortgage interest rates and a return of deposit inflows to lenders. A certain amount of time will also be required to work down housing inventories which are currently being built up.

Obviously, when deposit inflows do return to savings banks the first order of business will be to rebuild sorely depleted liquidity positions. But beyond this, recent mortgage market improvements may enable savings banks to resume their mortgage lending activities later this year or in early 1981. One significant change for mortgage lending in some savings bank states is the federal preemption of state usury ceilings, subject to a three-year state override incorporated in the Depository Institutions Deregulation and Monetary Control Act of 1980. This is particularly important in the case of New York State which previously had the lowest state mortgage usury ceiling in the country. Another new market factor was introduced when the Federal Home Loan Bank Board established a precedent by approving regulations governing the issuance of renegotiated-rate mortgages for federally chartered savings and loan associations. Also, savings banks are increasingly coming to rely on external borrowings as a source of liquidity as well as for earnings (February **SBJ**, page 24). This change by itself, to a certain degree, should increase the funds available for housing. And lastly, a pent up demand for housing is currently developing, which should support a housing recovery once the

Table 2: Mortgage Loan Portfolio Activity of Mutual Savings Banks, by States, 1979

(In millions of dollars)

Item	Total	N.Y.	Mass.	Conn.	Penn.	N.J.
Total:						
Loans held at beginning of year	95,157	49,368	14,028	9,476	6,152	4,934
Loans acquired	14,170	5,503	2,208	2,032	1,102	774
Repayments	9,907	4,134	1,782	1,273	451	425
Net gain	4,263	1,369	426	759	652	349
Loans held at end of year	99,671	50,770	14,455	10,235	6,867	5,283
FHA-insured:						
Loans held at beginning of year	14,203	10,385	1,209	342	922	723
Loans acquired	1.200	987	81	35	23	51
Repayments	1,572	1,108	124	90	85	81
Net gain	—372	—120	—43	—55	—63	—30
Loans held at end of year	13,839	10,265	1,166	287	866	693
VA-guaranteed:						
Loans held at beginning of year	11,824	7,161	1,579	321	1,222	724
Loans acquired	756	548	62	13	52	23
Repayments	1,183	730	165	41	95	65
Net gain	—427	—182	—102	—28	—42	—42
Loans held at end of year	11,403	6,979	1,476	293	1,185	681
Conventional and other:						
Loans held at beginning of year	69,130	31,822	11,241	8,813	4,008	3,488
Loans acquired	12,214	3,968	2,064	1,984	1,027	700
Repayments	7,151	2,296	1,493	1,142	271	279
Net gain	5,062	1,671	571	842	757	422
Loans held at end of year	74,429	33,527	11,812	9,655	4,815	3,909

Item	Wash.	Me.	N.H.	R.I.	Md.	Vt.
Total:						
Loans held at beginning of year	3,099	1,680	1,648	1,151	947	643
Loans acquired	929	326	379	226	155	149
Repayments	709	200	255	179	107	85
Net gain	220	126	125	47	47	63
Loans held at end of year	3,428	1,806	1,773	1,198	1,039	706
FHA-insured:						
Loans held at beginning of year	121	88	75	59	90	42
Loans acquired	1	3	1	4	2	*
Repayments	15	10	10	7	12	4
Net gain	—14	—7	—9	—3	—10	—4
Loans held at end of year	107	81	66	55	80	38
VA-guaranteed:						
Loans held at beginning of year	82	274	154	61	133	38
Loans acquired	5	22	17	1	3	*
Repayments	8	24	15	6	15	4
Net gain	—3	—1	2	—5	—12	—3
Loans held at end of year	79	273	155	56	121	34
Conventional and other:						
Loans held at beginning of year	2,897	1,318	1,419	1,031	724	564
Loans acquired	923	301	361	219	150	148
Repayments	686	167	230	164	81	78
Net gain	236	134	132	55	69	70
Loans held at end of year	3,241	1,452	1,551	1,086	839	634

* Less than $500,000.

Note: Total includes data for all other savings bank states not shown separately. See note to Table 1.

Source: National Association of Mutual Savings Banks.

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availability of mortgage financing improves.

Throughout 1979, mortgage lending offered attractive investment opportunities for savings banks. Yield spreads, for example, between conventional home mortgages and new Aa corporate bonds were positive throughout most of the year, with differences averaging 72 basis points in favor of mortgages. However, aside from limitations imposed by poor deposit experience, there were several factors which prohibited savings banks in certain geographical areas from taking full advantage of these attractive yields. These constraints included reduced consumer demands in some areas, unrealistically low usury ceilings in certain states and constant strains on liquidity.

Against this general background, the National Association's 1979 survey of mortgage lending patterns revealed the following:

1. Eight of 11 major reporting savings bank states experienced declines in gross mortgage flows. Of course, the size of these reductions varied state-to-state and was affected to differing degrees by each of the aforementioned influences. New York and Massachusetts registered the largest mortgage lending declines. And it was the former which also led the industry with the lowest state mortgage usury ceiling and the highest level of disintermediation. Notably, Pennsylvania, Washington and Maryland reported modest increases from 1978 in their gross mortgage acquisitions (Table 2).

2. Savings banks continued to emphasize residential over nonresidential mortgage lending. While gross acquisitions of residential loans were down by 15% in 1979, residential loans still accounted for 89% of the industry's total gross mortgage flows. Nonresidential gross acquisitions were off by 25% from 1978 and accounted for only 11% of total mortgage acquisitions (Table 1).

3. Declines in loans acquired were recorded for both federally underwritten and conventional residential mortgage loans, although the falloff in FHA and VA loans acquired was far greater than the reduction in conventional loan acquisitions. Total federally underwritten loans acquired by the industry were down by 25% from 1978 to $2 billion. Gross conventional mortgage flows, on the other hand, fell by only 13% to $10.7 billion in 1979. And this reflects the overall trend established in recent years in which savings banks have increased their emphasis on conventional lending in the mortgage market (Table 1).

Although savings banks still hold large portfolios of FHA-insured and VA-guaranteed loans, holdings of federally underwritten direct mortgage loans have been declining steadily for a number of years. At present, in fact,

Table 3: Mortgage Loan Portfolio Activity of Selected Types of Financial Institutions

(In millions of dollars)

Year	Loans held at beginning of year	Activity during year: Loans acquired	Repayments	Net gain	Loans held at end of year
		Total			
1973	446,845	136,129	82,108	54,022	500,892
1974	500,892	112,987	76,067	36,920	537,300
1975	537,300	119,065	75,101	43,964	581,265
1976	581,265	168,287	108,125	60,161	641,738
1977	641,738	235,822	137,874	97,948	739,778
1978	739,778	254,214	151,803	102,411	842,824
1979	842,824	247,935	154,844	93,090	936,165
		Mutual savings banks			
1973	67,563	13,283	7,641	5,643	73,231
1974	73,231	8,740	6,568	2,172	74,891
1975	74,891	9,396	7,067	2,329	77,221
1976	77,221	11,912	7,814	4,097	81,630
1977	81,630	16,527	10,054	6,473	88,195
1978	88,195	16,928	10,601	6,327	95,157
1979	95,157	14,170	9,906	4,263	99,671
		Savings and loan associations			
1973	206,182	56,819	31,268	25,551	231,733
1974	231,733	45,003	27,435	17,568	249,301
1975	249,301	63,782	34,493	29,289	278,590
1976	278,590	91,844	47,429	44,415	323,005
1977	323,005	122,151	63,993	58,158	381,163
1978	381,163	121,482	69,837	51,645	432,808
1979	432,808	112,778	69,789	42,989	475,797
		Life insurance companies			
1973	76,948	11,463	7,231	4,232	81,180
1974	81,180	11,339	6,285	5,054	86,234
1975	86,234	9,595	6,662	2,933	89,167
1976	89,167	9,801	7,416	2,385	91,552
1977	91,552	14,176	8,880	5,296	96,848
1978	96,848	17,406	8,087	9,319	106,167
1979	106,167	19,788	7,171	12,617	118,784
		Commercial banks			
1973	96,152	54,564	35,968	18,596	114,748
1974	114,748	47,905	35,779	12,126	126,874
1975	126,874	36,292	26,879	9,413	136,287
1976	136,287	54,730	45,466	9,264	145,551
1977	145,551	82,968	54,947	28,021	173,572
1978	173,572	98,398	63,278	35,120	208,692
1979	208,692	101,199	67,978	33,221	241,913

Note: Data reflect mortgage holdings net of valuation reserves for life insurance companies and savings and loan associations and gross mortgage holdings for commercial banks and mutual savings banks. Repayments represent the difference between loans acquired and net gain. Commercial bank data exclude land loans. All 1979 data are preliminary. See note to Table 1.

Source: Board of Governors of the Federal Reserve System, Department of Housing and Urban Development, American Council of Life Insurance, National Association of Mutual Savings Banks and United States League of Savings Associations.

Table 4: Percentage Distribution of Gross Mortgage Acquisitions of Main Types of Financial Institutions, 1977-1979

(In per cent)

	Mutual savings banks			Commercial banks			Savings and loan associations			Life insurance companies		
	1977	1978	1979	1977	1978	1979	1977	1978	1979	1977	1978	1979
Long term mortgage loans												
Residential	79.4	77.8	78.2	46.9	48.5	45.1	78.1	77.7	78.3	12.2	20.7	25.9
1-to 4-family	68.7	69.3	71.8	44.7	46.3	43.0	72.6	72.9	74.2	4.6	9.7	17.6
Multifamily	10.7	8.5	6.4	2.2	2.2	2.1	5.5	4.8	4.1	7.6	11.1	8.4
Nonresidential	10.9	10.6	8.4	20.2	18.2	16.5	5.0	4.2	3.8	67.1	61.3	56.8
Farm	*	.1	*	3.9	3.3	2.2	.1	.1	.1	17.3	16.0	14.4
Construction loans	9.6	11.6	13.5	29.0	30.0	36.3	16.8	18.0	17.9	3.3	2.0	2.9
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

* Less than .05 per cent.

Source: Department of Housing and Urban Development.

Mortgage Survey—

the principal means among savings banks for investing in FHA and VA loans is through purchases of GNMA-guaranteed mortgage-backed securities. During 1979, savings bank's GNMA net acquisitions rose slightly to $1.8 billion. And this brought total savings bank GNMA holdings outstanding to $11.8 billion (Chart 2).

Justification for the continued popularity of conventional mortgage leading can be attributed to the widespread use of private mortgage insurance and the evolution of a more fully developed secondary market. Beyond this an additional incentive should be the recently enacted federal preemption of state mortgage usury ceilings.

4. 1979 was a year of generally reduced mortgage lending activities for each of the major institutional mortgage lenders. Nonetheless, lenders tended to continue their long-established patterns of emphasizing specific sectors of the overall mortgage market. Savings banks and S&Ls combined allocated in excess of three-quarters of their gross mortgage flows to single- and multi-family loans, while commercial banks and insurance companies continued their greater emphasis on nonresidential loans. Another fundamental difference between lenders was the importance of construction loans. Despite increasing to 14% of gross mortgage flows, savings bank construction loan financing remained below the 36% and 18% of gross mortgage flows reported for commercial banks and S&Ls, respectively (Table 4). **(END)**

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NAMSB Research Report—

Savings Bank Equity Investment Trends

Table 1: Holdings and Net Acquisitions of Corporate Stock by Mutual Savings Banks, 1969-1979

(In millions of dollars)

	Holdings at end of period			Net acquisitions		
Period	**Total**	**Preferred**	**Common**	**Total**	**Preferred**	**Common**
1969	2,213	626	1,587	240	32	208
1970	2,511	729	1,782	308	103	205
1971	2,983	871	2,111	472	142	329
1972	3,586	1,060	2,527	604	188	415
1973	3,962	1,169	2,793	376	110	266
1974	4,157	1,307	2,850	280	140	139
1975	4,322	1,471	2,851	165	164	1
1976	4,381	1,547	2,834	60	75	—16
1977	4,751	1,707	3,043	371	161	210
1978	4,807	1,848	2,958	42	134	—92
1979	4,760	1,823	2,937	—47	—25	—22
1969						
Jan.-June	2,145	630	1,515	172	37	136
July-Dec.	2,213	626	1,587	68	—4	72
1970						
Jan.-June	2,348	651	1,697	135	25	110
July-Dec.	2,511	729	1,782	174	78	96
1971						
Jan.-June	2,832	867	1,965	321	138	184
July-Dec.	2,983	871	2,111	151	5	146
1972						
Jan.-June	3,356	1,002	2,354	373	131	242
July-Dec.	3,586	1,060	2,527	230	57	173
1973						
Jan.-June	3,897	1,109	2,788	311	50	261
July-Dec.	3,962	1,169	2,793	65	60	5
1974						
Jan.-June	4,119	1,297	2,821	241	131	110
July-Dec.	4,157	1,307	2,850	38	10	29
1975						
Jan.-June	4,300	1,425	2,875	143	118	25
July-Dec.	4,322	1,471	2,851	22	46	—24
1976						
Jan.-June	4,344	1,515	2,829	22	43	—22
July-Dec.	4,381	1,547	2,834	38	32	6
1977						
Jan.-June	4,576	1,651	2,925	197	104	92
July-Dec.	4,751	1,707	3,043	175	57	118
1978						
Jan.-June	4,845	1,817	3,028	83	103	—20
July-Dec.	4,807	1,848	2,958	—41	31	—72
1979						
Jan.-June	4,870	1,900	2,971	64	51	13
July-Dec.	4,760	1,823	2,937	—110	—76	—34

Note: Data on amounts held refer to book values before deduction of valuation reserves. Net acquisitions refer to changes in amounts held and are adjusted to exclude the effects of conversions of mutual savings banks and other institutions. Components may not add to totals because of rounding.

Source: National Association of Mutual Savings Banks.

NET ACQUISITIONS of corporate stock by mutual savings banks in 1979 and early 1980 continued the gradual decline begun in 1973. The result was a modest reduction of $47 million in industry holdings of these assets during 1979, leaving outstanding balances of $4.76 billion in equity portfolios at the end of the year, only 1% below the $4.8 billion a year earlier (Table 1).

This was a remarkably stable performance, despite one of the bleakest periods in savings bank history marked by unprecedented disintermediation and earnings pressures in a soaring interest rate environment. The largely unchanged equity flow was also in sharp contrast to the relatively sharp cutbacks in other non-mortgage asset categories. For example, corporate and other bond portfolios were reduced by $840 million, U.S. Treasury and federal agency obligations by $648 million, and holdings of state and municipal securities were reduced by $623 million (Table 2). These figures represent declines of 4%, 8% and 19%, respectively.

Equity Portfolios Composition

The activity in equity portfolios in 1979 reflected small reductions in both common and preferred shares, in contrast to the previous year when savings banks continued to acquire significant amounts of preferred stock while liquidating a substantial amount of common stock. Thus, holdings of common shares declined by $22 million in 1979 compared to a sizable $92 million decrease in the previous year. At the same time, $25 million in preferred stock was liquidated in contrast to a substantial increase of $134 million in 1978. Significantly, the liquidation was accomplished in the second half of the year when inflationary pressures and interest rates were at their worst (Table 3).

As shown in Tables 4 and 5, common

by R. Lillian Rattner

shares still dominate equity holdings of the industry, accounting for 62% of total corporate stock assets at the end of 1979. The ratio, however, has been steadily declining on an industrywide basis from the high of 72% reached in 1969.

Savings bank equity investment performance in 1979 continued to reflect the limited role of these assets in overall investment activity and total asset holdings (Table 6). Moreover, this role is gradually decreasing further as the equity share in the total asset structure of the industry appears to be headed back down to the smaller proportions of earlier years. As shown in Table 6, the 2.9% of total assets accounted for by equities at the end of 1979 reflects a continuing, gradual decline from the high of 3.8% in 1974.

Regional Variations

The 1979 pattern and relative importance of equity holdings in the industry's balance-sheet structure continued to reflect the influence of variations in state laws and management policies among individual institutions. As a result, there was considerable regional variation in savings bank investment patterns. These differences are illustrated below:

1. In dollar terms, New York State savings banks are the leading holders of equity investments. With portfolios of $2.26 billion at the end of 1979, they accounted for nearly half (47%) of the industry's total holdings of $4.76 billion. This proportion has held relatively stable over recent years. Savings banks in two states, Massachusetts and Connecticut, with stock holdings of $945 million and $739 million, respectively, represented the bulk (67%) of the remaining industry portfolios. Accordingly, equity investment activity of the industry in 1979, as in most other years, reflected

Table 2: Net Flow of Investment Funds from Mutual Savings Banks, Selected Periods, 1978-1979

(In millions of dollars)

Item	1978		1979	
	Jan.-June	July-Dec.	Jan.-June	July-Dec.
Cash	—243	1,483	—821	306
U.S. Government and federal agency securities	—553	—426	—302	—346
State and municipal securities	160	325	—390	—233
Corporate and other bonds	363	—318	—145	—695
Corporate stock	83	—41	64	—110
Mortgage-backed securities (GNMA guaranteed)	926	704	1,192	607
Mortgage loans	3,001	3,326	1,991	1,897
Other assets	1,620	—416	2,452	—182
Total assets	5,357	4,636	4,041	1,244

Source: National Association of Mutual Savings Banks.

Table 4: Holdings of Corporate Stock by Mutual Savings Banks, by State, December 31, 1979

(In thousands of dollars)

State	Total	Preferred	Common
New York	2,257,629	1,301,494	956,134
Massachusetts	944,713	101,637	843,076
Connecticut	738,506	111,376	627,130
Pennsylvania	269,594	93,246	176,348
New Hampshire	136,713	16,131	120,581
Maine	117,275	26,282	90,993
New Jersey	122,216	78,934	43,282
Washington	19,202	11,178	8,024
Rhode Island	40,960	3,219	37,742
Vermont	11,024	1,239	9,785
Other states	102,329	78,713	23,617
Total	4,760,161	1,823,449	2,936,712

Source: National Association of Mutual Savings Banks.

Table 5: Percentage Distribution of Corporate Stock Holdings of Mutual Savings Banks, by State, December 31, 1979

(In per cent)

State	Total	Preferred	Common
New York	100.0	57.6	42.4
Massachusetts	100.0	10.8	89.2
Connecticut	100.0	15.1	84.9
Pennsylvania	100.0	34.6	65.4
New Hampshire	100.0	11.8	88.2
Maine	100.0	22.4	77.6
New Jersey	100.0	64.6	35.4
Washington	100.0	58.2	41.8
Rhode Island	100.0	7.9	92.1
Vermont	100.0	11.2	88.8
Other states	100.0	76.9	23.1
Total	100.0	38.3	61.7

Source: National Association of Mutual Savings Banks.

Table 3: Net Change in Holdings of Corporate Stock by Mutual Savings Banks, Monthly, 1977-1980

(In millions of dollars)

Month	1977	1978	1979	1980
January	29	9	8	—28
February	29	26	22	—163
March	13	57	12	—148
April	32	26	20	
May	44	19	18	
June	50	—54	—16	
July	27	2	31	
August	43	—31	—25	
September	52	—35	—61	
October	11	3	—38	
November	38	40	—15	
December	4	—21	—3	
Total	371	42	—47	

Source: National Association of Mutual Savings Banks.

Table 6: Ratio of Corporate Stock to Total Assets of Mutual Savings Banks, by State, Selected Dates, 1950-1979

(In per cent)

State	Dec. 31, 1979	Dec. 31, 1978	Dec. 31, 1977	Dec. 31, 1976	Dec. 31, 1975	Dec. 31, 1970	Dec. 31, 1965	Dec. 31, 1960	Dec. 31, 1955	Dec. 31, 1950
New York	2.6	2.7	2.8	2.8	3.1	2.6	1.9	1.3	1.3	—
Massachusetts	4.1	4.2	4.5	4.5	4.7	3.9	3.4	3.7	4.5	2.4
Connecticut	5.1	5.5	6.1	6.2	6.5	6.4	5.1	4.6	4.4	3.1
Pennsylvania	2.0	2.1	2.2	2.1	2.4	2.1	1.4	1.2	1.0	*
New Hampshire	5.1	5.8	6.2	6.2	6.0	5.6	5.1	5.3	6.3	6.7
Maine	4.4	4.9	5.7	5.8	5.5	5.1	4.5	5.4	4.9	2.5
New Jersey	1.3	1.5	1.4	1.6	1.8	1.5	1.7	1.3	1.1	.1
Washington	.4	.5	1.5	1.7	2.5	.8	*	—	—	—
Rhode Island	2.3	2.7	3.0	3.6	4.3	6.7	6.2	4.3	5.1	4.2
Vermont	1.2	1.2	1.2	1.3	1.3	.8	.8	1.1	1.2	1.0
Other states	2.1	2.2	2.2	2.2	2.3	2.6	2.1	1.2	.4	.1
Total	2.9	3.0	3.2	3.2	3.6	3.1	2.4	2.0	2.1	.8

*Less than .05 per cent.

Source: National Association of Mutual Savings Banks.

Equity Investments—

principally the policies of the savings banks in these three states.

2. Contrary to industry trends, savings banks in several states registered increases in their holdings of corporate stock during 1979. These were savings banks in Pennsylvania, Washington and Vermont, as well as in Maryland and Wisconsin. In the latter two, the increases were particularly large relative to portfolio size, resulting in a tripling and quadrupling, respectively, of these holdings.

3. Although heavily concentrated in New York, equity holdings as a percent of total assets were, at the end of 1979 as in the past several years, highest in four New England states. This ratio was highest in New Hampshire and Connecticut, where 5.1% of total assets was invested in corporate stock, followed by Maine (4.4%) and Massachusetts (4.1%). In all the remaining major states, however, savings banks held a smaller share of their assets in equities than the industry average of 2.9%.

4. Wide variations among institutions and states also continued to exist with respect to the proportion of common stock in equity portfolios. Although common shares represented the bulk of equity holdings in most major areas, the industry average of 62% was again greatly exceeded in most of the New England states, including Rhode Island (92%), Massachusetts and Vermont (89%), New Hampshire (88%) and Connecticut (85%). At the other end of the scale, common stocks were only 15% and 12%, respectively, of equity portfolios in Delaware and Maryland.

Overall Investment Picture

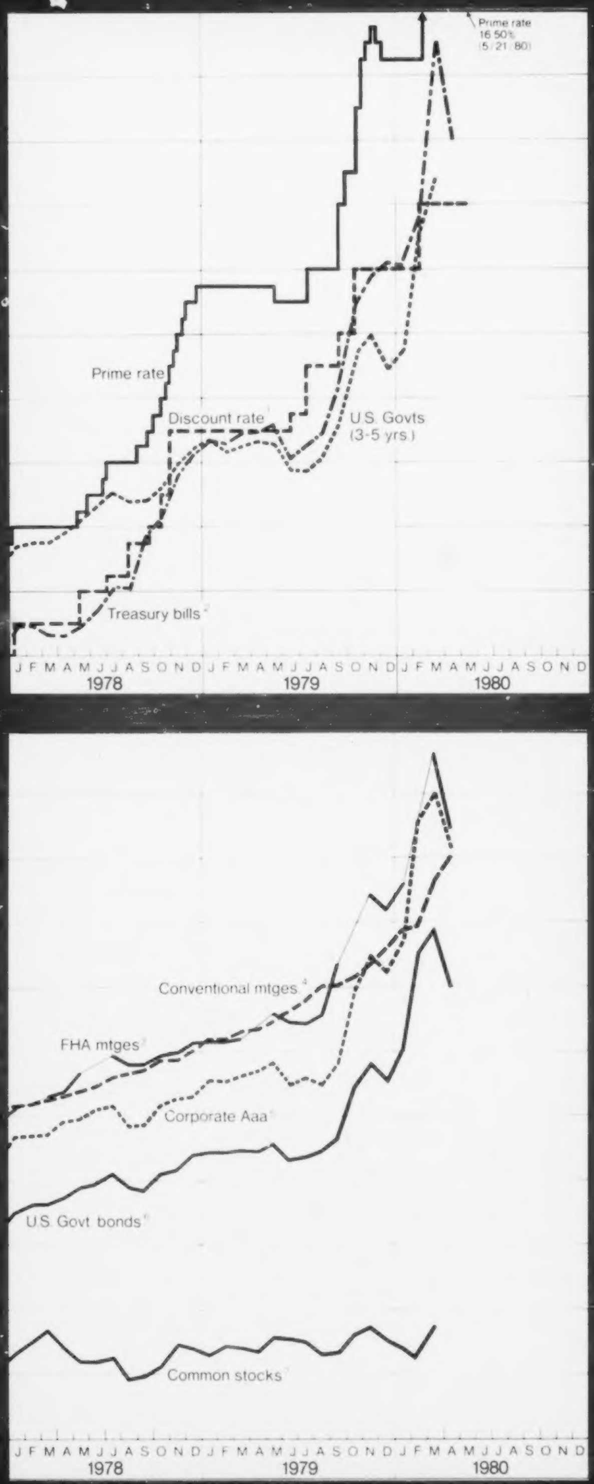
As noted above, the slight reduction in net purchases of equities by savings banks in the 1979-80 period appeared to be part of a general cutback in most types of investments. This reflected (1) the limitations on available funds imposed by the unprecedented outflow of deposits; (2) the continued emphasis on meeting local mortgage credit demands; and (3) a strong emphasis on maintaining adequate liquidity positions.

The decline in investable funds largely resulted from a massive $7 billion outflow, excluding interest, in savings and time deposits in 1979, the largest ever in savings bank history. In this dismal deposit environment, the industry was able to provide a relatively substantial amount of mortgage credit only by cutting back non-mortgage investments as well as by having access to a heavy volume of mortgage repayments.

The industry emphasis on mortgage acquisitions was in response to the strong demand for mortgage credit based on (1) a substantial expansion in the age group constituting the major source of potential home buyers, and (2) a broad public perception of home ownership in 1979 as a major hedge against inflation. As a result, mortgage loans and mortgage-type securities (GNMAs) accounted for the entire asset gain in 1979. In late 1979 and early 1980, mortgage and housing markets weakened in the worsening financial and economic climate.

Savings bank equity investment activity also was influenced by the need to maintain liquid assets at high levels throughout this period. The liquid asset holdings served as a precaution against possible deposit losses and the rapidly growing proportion of expensive, short-term accounts in the deposit structure, particularly, six-month money market certificates of deposit.

Thus, to obtain funds for mortgage investments and to maintain a high degree of liquidity, purchases of corporate and government obligations and, to a minor degree, equities, were reduced and existing holdings liquidated. **(END)**



SBJ Money and Capital Market Yield Trends

[1] Federal Reserve Bank of New York. [2] Three-month, new issue rate. [3] Average secondary market yield on new construction, sec. 203, 30-year maturity, 10-year prepayment and minimum down-payment. [4] Effective rate on purchase of new single-family homes. [5] New issues. [6] Maturing or callable in 10 years or more. [7] Standard & Poor's [illegible] ratio.

Mortgaging trends

Rates hit 13%. The average effective interest rate on conventional mortgages for new homes reached 13% in April; and for existing homes, the rate skyrocketed to 13.56%, the FHLB Board reported last month.

The record April rates compared with March's average effective rate on loans for new homes of 12.62%, and 12.87% on loans for existing homes.

The Board also reported that the average term-to-maturity on conventional loans for new homes rose to 28.5 years, from 27.4 years in March; and on existing homes, to 27 years from 26.9 years the previous month.

The average purchase prices of both new and existing homes also increased between March and April, following some relief in home prices in the previous month-to-month period. The average price for new homes in April was $82,800, compared with $77,700; for existing homes, it was $71,100, compared with $69,100.

Starts continue slide. Housing starts declined 2.1% in April to a seasonally adjusted annual rate of 1.02 million units, the lowest level since April 1975, the Commerce Department said last month.

Single-family starts rose slightly during the month to a seasonally adjusted annual rate of 625,000 units, from 615,000 units in March. Multifamily starts accounted for the overall decline, falling to a seasonally adjusted annual rate of 394,000 units, from March's 426,000.

Permits plunge. Building permits were off a steep 14.6% between March and April, as they plummeted to a seasonally adjusted annual rate of 800,000 in April from the 932,000 building permits reported a month earlier.

The Commerce Department said single-family permits issued during April dropped to a seasonally adjusted annual rate of 467,000, from 538,000 in March. Multifamily permits declined to a seasonally adjusted annual rate of 333,000 in April, from 394,000.

Offer alternative mortgages. Erie Savings Bank and Buffalo Savings Bank, both of Buffalo, N.Y., were neck-in-neck recently in launching new alternative mortgage instruments in

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the competitive upstate market.

Erie Savings was on board first with the variable rate mortgage on February 14, becoming the first savings bank in New York to offer the VRM. On April 28, Buffalo Savings followed with the VRM and simultaneously debuted the renegotiated rate mortgage, also becoming the state's first savings bank to offer the RRM.

Last month, the banks' menus looked as follows: In addition to offering the conventional, fixed-rate mortgage, Erie Savings offered the VRM and in mid-May introduced the RRM, both at rates ¼%-½% below its fixed-rate loan; and Buffalo Savings offered the RRM at ¼% lower than its fixed-rate loan, and offered, at the same rate as the fixed-rate, the VRM and a constant principal payment mortgage—under which monthly payments are gradually reduced over the life of the loan because, while the principal is constant, the interest rate is calculated monthly on the declining principal balance.

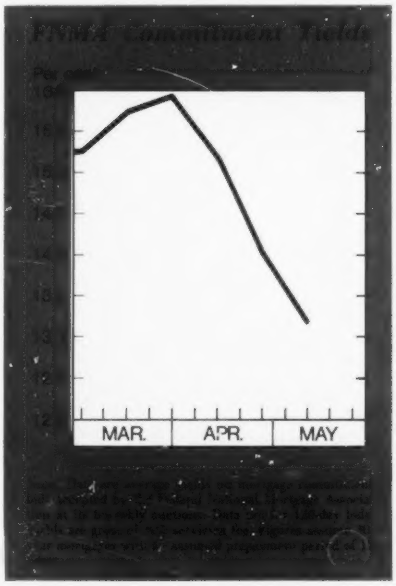
The VRM and RRM offered by both savings banks are patterned after, and carry the same minimum and maximum rate adjustments and other terms as the instruments authorized for federal thrifts by the FHLB Board. Both banks have opted to offer the RRM with a three-year rate adjustment period.

Spokesmen for both banks said their legal staffs had determined that these instruments are permitted under the section of New York State banking law which allows banks to make up to 75% loan-to-value ratio loans without a constant payment. Lower down payments would be allowed only if state legislation to that effect was passed.

New York State savings banks previously were blocked from offering alternative mortgages because the adjusted rates could potentially bump against the state's usury ceilings. That ceiling was preempted last December and then permanently preempted March 31 by federal legislation.

How is the Buffalo market reacting to the new instruments? Joseph Halizak, Erie's vice president-residential mortgage officer, said the bank closed one VRM in mid-April, and in early May had pending 29 VRM applications totaling over $1 million. "The VRM came out when activity slackened because of high interest rates, but since we've lowered our rate, applications have been running about 60% fixed-rate, 40% VRM," Halizak said.

Also launches adjustable rate mortgage. The conventional, fixed-rate mortgage was placed on the back burner last month at the Maine Savings Bank, Portland, as the bank latched on to the trend of offering adjustable rate mortgages. On May 19, Maine Savings unveiled its version of the adjustable mortgage — "The Flexible One," a 30-year note with provisions for a rate adjustment every three years.



According to Maine Savings officials, the bank will exclusively offer "The Flexible One" and retain these loans in its portfolio; however, in the future, it looks to a secondary market purchase program for these loans. As for the fixed-rate loan, "the days of the fixed-rate portfolio are gone," explained Kenneth A. McAfee, vice president-residential real estate. He said the bank will originate fixed-rate loans "from time to time" but only for sale in the secondary market.

At its debut, the bank's adjustable mortgage carried an interest rate of 13% plus two points, and a down payment requirement of 20% or, with private mortgage insurance, 10%. The bank has set no prepayment penalty, and has set optional rate increases and mandatory rate decreases of .5% per year and 5% over the life of the loan.

While most of the terms of "The Flexible One" are identical to those of the FHLB Board's RRM, McAfee noted the Maine Savings version has several advantages: Unlike the RRM, the customer will not have to come to the bank every three years to renegotiate a short-term loan; there is no prepayment penalty during the first renewal period, or ever; and no intervening lien problems could arise.

Maine Savings is the first financial institution in the state to offer a rollover or RRM, bank officials said.

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SAVINGS BANK STATISTICS

Prepared by RESEARCH AND
ECONOMICS DEPARTMENT
NATIONAL ASSOCIATION
OF MUTUAL SAVINGS BANKS

Jack Rubinson, Director

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IN APRIL, mutual savings banks continued to experience heavy deposit losses in savings and time accounts totaling $1 billion, excluding interest. While the April deposit drain exceeded March and February losses of $750 million and $543 million, respectively, by fairly substantial margins, April flows are typically weak, reflecting income tax payments due at the mid-April deadline.

However, the April experience fell short of the $1.2 billion deposit loss reported a year earlier at the start of the current disintermediation period. But, more importantly, it was the first to break a series of seven consecutive months of record deposit outflows in the industry. Finally, preliminary data in the first two weeks of May indicate a return of inflows which, if realized for the entire month, would end the 13 month period of unprecedented disintermediation suffered by savings banks.

The April/May improvement in savings bank deposit trends is attributable primarily to the effects of a sharp decline in interest rates, which began shortly after the Federal Reserve System's further tightening of credit in mid-March, and growing evidence of a severe economic slowdown. The rate slide was sharpest in the sensitive short-term money market where, for example, U.S. Treasury bill rates fell as low as 8%-9% from a high of nearly 16% in late March. As these rates have fallen, yields on other competing instruments have followed suit and savings banks anticipate that deposits will begin to return to the industry.

Pressures from one major source of competition, individual investor demands for U.S. Treasury securities, has already eased in response to the fall in rates, as evidenced by a decline in the noncompetitive share of total sales in the three-month Treasury bill auction to 20% in mid-May from a 25% share in mid-April and a 34% average share in the month of March.

The interest rate decline has also triggered savings bank reductions in rates on the six-month and other market-linked certificates of deposit, a development which could reasonably be expected to significantly reduce the industry's cost of gathering loanable funds. However, the resulting expected improvement in the balance between interest costs and earnings may not be realized for some time. This is because savings banks are still saddled with a

DEPOSIT ACTIVITY IN REGULAR ACCOUNTS IN MUTUAL SAVINGS BANKS,[1] BY STATES

(Amounts in thousands of dollars)

State	March 1980					March 1979				
	Amounts Deposited[2]	With-drawals	Net Change in Deposits			Amounts Deposited[2]	With-drawals	Net Change in Deposits		
			Excluding Interest	Incl. Interest				Excluding Interest	Incl. Interest	
				Amt.	%				Amt.	%
Connecticut	1,360,871	1,380,434	—19,563	58,925	.46	803,632	744,204	59,428	122,179	1.00
Indiana	16,345	15,964	381	1,361	.61	11,086	8,885	2,201	3,650	1.73
Maine	270,181	273,866	—3,685	12,611	.53	167,200	153,684	13,516	25,343	1.15
Maryland	141,965	140,492	1,473	16,102	1.03	82,697	67,533	15,164	26,333	1.92
Massachusetts	2,452,412	2,534,143	—81,731	45,110	.22	1,714,812	1,641,569	73,243	175,556	.86
New Hampshire	288,868	281,231	7,637	23,879	1.03	196,327	185,552	10,775	20,523	.93
New Jersey	1,252,890	1,200,056	52,834	106,751	1.32	563,494	496,343	67,151	110,887	1.45
New York—City	4,136,664	4,722,311	—585,647	194,934	.37	2,751,545	2,795,339	—43,794	764,911	1.40
—Upstate	2,092,923	2,094,513	—1,590	306,849	1.38	1,274,166	1,149,734	124,432	406,773	1.90
Pennsylvania	1,433,700	1,431,587	2,113	110,750	.93	1,152,714	1,025,011	127,703	214,193	1.87
Rhode Island	139,762	132,493	7,269	20,387	1.30	95,029	88,529	6,500	18,602	1.23
Vermont	66,622	76,839	—10,217	—1,642	—.21	31,868	33,870	—2,002	5,482	.74
Washington	445,423	478,502	—33,079	32,099	.85	316,044	295,533	20,511	74,153	2.03
Wisconsin	8,796	8,883	—87	417	.53	4,741	3,988	753	1,219	1.70
All other states	305,080	319,769	—14,689	1,680	.07	184,405	197,424	—13,019	1,459	.06
Total	14,412,502	15,091,083	—678,581	930,213	.65	9,349,760	8,887,198	462,562	1,971,263	1.39

Note: See notes to "Assets and Liabilities of All Mutual Savings Banks."

[2] Excludes interest credited.

[1] Excludes special purpose accounts such as checking, Christmas, vacation and school. Source: National Association of Mutual Savings Banks.

substantial amount of high-cost funds, much of which was attracted in late March and early April when interest rates were at their peaks. At that time, depositors locked in yields as high as 15%-16% with the purchase of market-linked certificates of deposit. Thus, outstanding balances in six-month money market CDs increased by $4 billion each in March and April, double the $2 billion gains registered in January and February. At the end of April, these MMC balances totalled $47 billion and accounted for nearly one-third of total savings bank deposits.

Balances in 30-month CDs also increased sharply, rising by $1.2 billion in April compared with a $700 million increase in the previous month. About $3.6 billion or 2.5% of savings bank deposits were held in these accounts at the end of April. These 30-month certificates are becoming increasingly attractive to depositors who are convinced that rates have peaked and that their favorable yield advantage over the six-month CDs in the new interest-rate climate makes it desirable to lock in the higher rates.

The decline in interest rates has also raised hopes that savings banks could regain some of the market share previously lost to commercial banks when the one quarter percent ceiling rate differential between them on six-month money market certificates was eliminated by rates that persisted above the critical 9% level. This hope was encouraged by the partial restoration of the differential as auction rates on six-month Treasury bills dropped below 9% in mid-May.

On the other hand, the swift plunge in rates has set off new concerns regarding the competitiveness of these MMCs vis-a-vis offerings by money market mutual funds. Currently, savings institutions are paying 8%-9% while the funds are paying about 13%. Accordingly, for this and for other reasons, it would be premature to expect a strong deposit rebound in the immediate months ahead.

(END)

DEPOSIT ACTIVITY IN REGULAR ACCOUNTS IN MUTUAL SAVINGS BANKS

(Amounts in millions of dollars, accounts in thousands)

Period	Amounts Deposited	With-drawals	Net change in deposits			Number of accounts	
			Excluding interest	Including interest		Total	Net Change
				Amt.	%		
Annually							
1975	53,125	48,369	4,757	11,070	11.27	26,284	980
1976	62,429	57,147	5,283	12,269	11.23	27,533	1,151
1977	73,306	70,431	2,874	10,687	8.76	28,825	1,303
1978	91,967	92,558	—591	7,697	5.80	30,472	1,647
1979	121,994	128,955	—6,962	2,492	1.77	n.a.	n.a.
Monthly							
1979—Apr.	10,196	11,388	—1,192	—818	—.57	n.a.	n.a.
May	9,007	9,348	—341	61	.04	n.a.	n.a.
June	9,719	10,353	—635	1,009	.70	n.a.	n.a.
July	12,630	13,363	—733	—337	—.23	n.a.	n.a.
Aug.	9,829	10,333	—504	—92	—.06	n.a.	n.a.
Sept.	8,924	9,996	—1,072	487	.34	n.a.	n.a.
Oct.	12,699	14,120	—1,421	—1,028	—.71	n.a.	n.a.
Nov.	10,231	10,996	—765	—325	—.23	n.a.	n.a.
Dec. r.	9,958	10,945	—987	830	.58	n.a.	n.a.
1980—Jan. r.	13,611	15,047	—1,436	—928	—.64	n.a.	n.a.
Feb. r.	10,549	11,092	—543	—79	—.05	n.a.	n.a.
Mar.	14,413	15,091	—679	930	.65	n.a.	n.a.
Apr. (Est.)	n.a.	n.a.	—1,000	—500	—.35	n.a.	n.a.

n.a.—not available. Est.—estimated. r. Revised

Notes: Annual and monthly data for net change in deposits including interest and net change in number of accounts have been adjusted, where necessary, to exclude the effects of conversions and consolidations of savings banks and other types of institutions. Amounts deposited and withdrawals include shifts of funds between ordinary and time and other higher-yield accounts. Components may not add to totals due to rounding. Source: National Association of Mutual Savings Banks.

ASSETS AND LIABILITIES OF ALL MUTUAL SAVINGS BANKS

(Amounts in millions of dollars)

Date	Mortgages	GNMAs	Investments				Other assets	Total assets-Total liabilities & gen. res. accts.	Deposits			Other liabil-ities	General reserve accounts
			U.S. Govt. & Federal agencies	State & local Govt.	Corpo-rate bonds	Corpo-rate stocks			Total*	Savings	Time		
1975 Dec. 31	77,221	3,367	7,507	1,545	17,536	4,322	9,558	121,056	109,873	69,653	39,639	2,755	8,428
1976 Dec. 31	81,630	5,808	9,109	2,417	20,335	4,381	11,131	134,812	122,877	74,535	47,426	2,884	9,052
1977 Dec. 31	88,195	8,331	9,233	2,828	21,498	4,751	12,450	147,287	134,017	78,005	54,739	3,292	9,978
1978 Dec. 31	95,157	10,021	8,297	3,333	21,566	4,807	14,991	158,174	142,701	71,816	69,354	4,565	10,907
1979 May 31	96,239	11,168	8,148	3,264	21,249	4,887	16,426	161,380	145,056	67,577	75,694	5,172	11,153
June 30	96,761	11,213	7,995	3,163	21,201	4,870	16,673	161,876	146,194	68,113	76,167	4,477	11,205
July 31	97,252	11,260	7,973	3,136	21,016	4,902	17,100	162,638	145,877	67,531	76,413	5,499	11,262
Aug. 31	97,647	11,325	7,904	3,132	20,925	4,877	17,643	163,451	145,855	66,739	77,113	6,275	11,321
Sept. 30	97,980	11,405	7,874	3,133	20,858	4,816	17,429	163,494	146,394	65,583	78,689	5,715	11,385
Oct. 31	98,311	11,594	7,734	3,083	20,835	4,778	16,862	163,197	145,247	62,678	80,712	6,517	11,434
Nov. 30	98,610	11,626	7,754	3,003	20,647	4,763	16,802	163,205	144,828	61,156	81,908	6,872	11,504
Dec. 31 r.	98,908	11,820	7,658	2,930	20,507	4,760	16,821	163,405	146,006	61,123	82,947	5,873	11,525
1980 Jan. 31 r.	98,940	11,959	7,387	2,887	20,423	4,732	16,925	163,252	145,044	59,252	83,891	6,664	11,544
Feb. 29 r.	99,220	12,154	7,436	2,853	20,498	4,571	17,538	164,270	145,171	58,234	85,050	7,485	11,615
Mar. 31	99,151	12,512	7,629	2,824	20,558	4,423	18,010	165,107	146,328	56,948	87,266	7,136	11,643
Apr. 30 (Est.)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	145,978	n.a.	n.a.	n.a.	n.a.
% of Total Assets													
March 31, 1980	60.1	7.6	4.6	1.7	12.5	2.7	10.9	100.0	88.6	34.5	52.9	4.3	7.1
Change during month	—69	358	193	—29	60	—148	471	837	1,158	—1,286	2,217	—349	28

Note: Balance sheet data beginning with April 30, 1979 are not strictly comparable with prior months. This largely reflects: (1) changes in FDIC reporting procedures; and (2) reclassification of certain items.

n.a.—not available. Est.—estimated. r.—revised Source: National Association of Mutual Savings Banks.

* — Total deposit figures include checking, school, club and certain other accounts not shown separately.

Note: GNMA figures refer to all types of mortgage-backed securities guaranteed by the Government National Mortgage Association.

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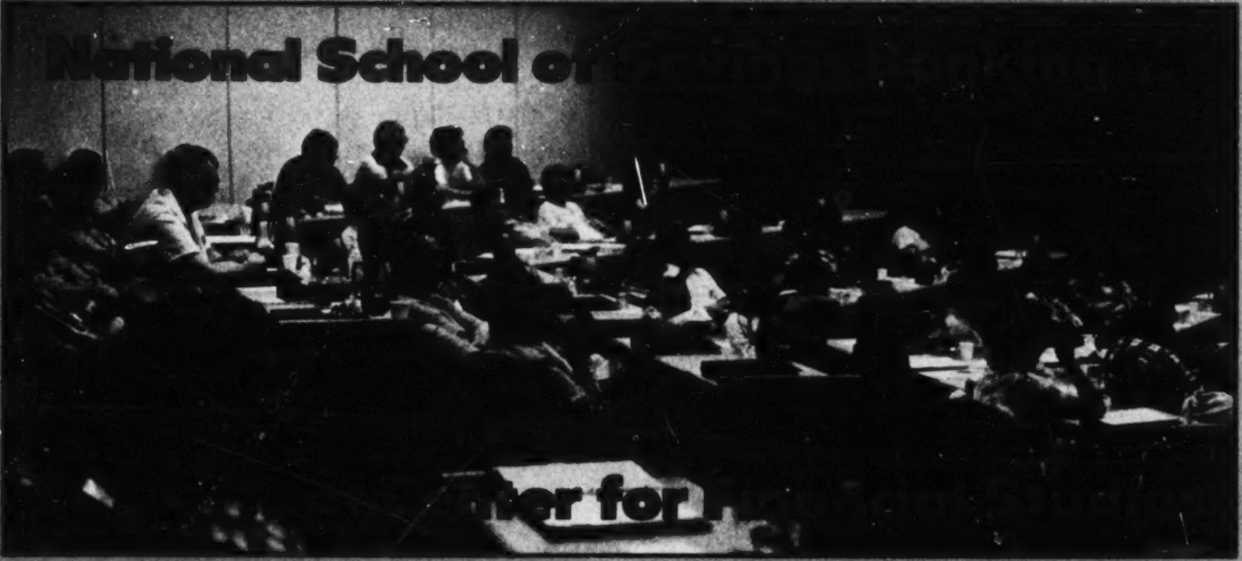
Aftermath of Thrift Industry Crisis



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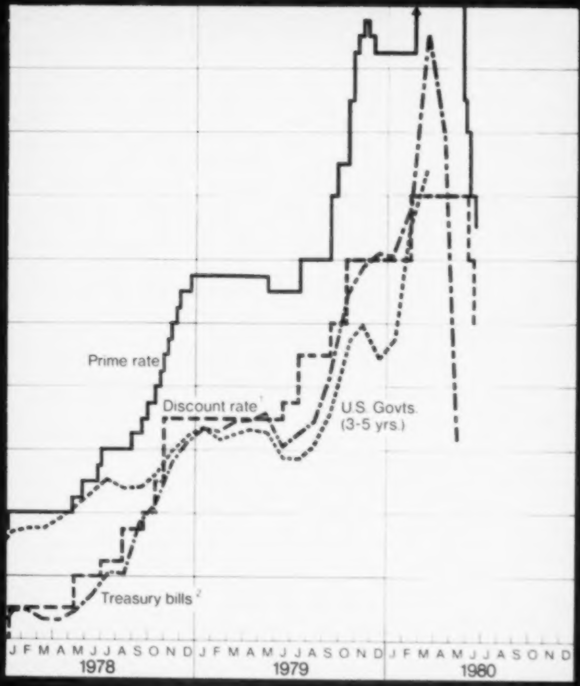

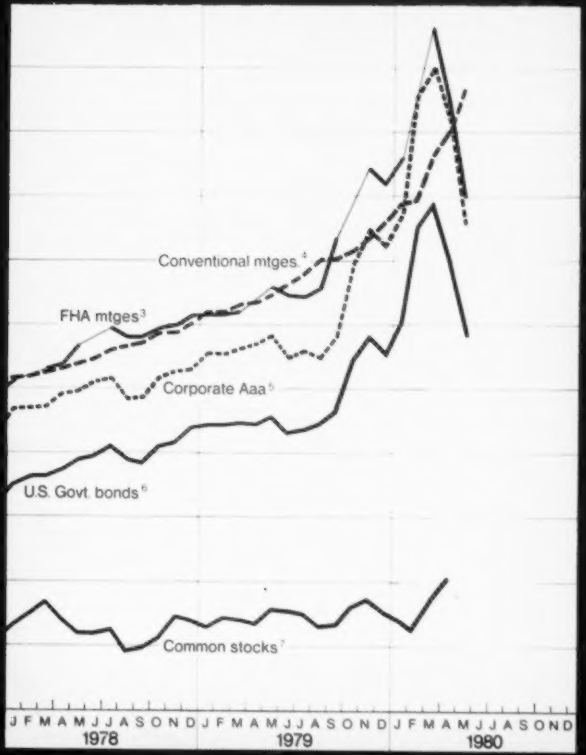

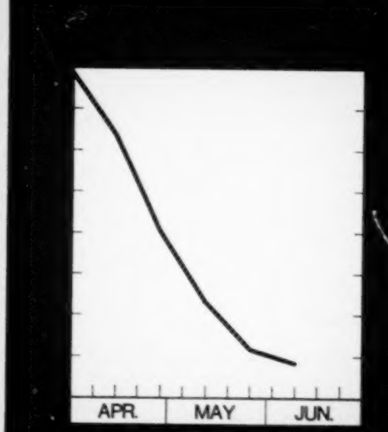

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DEPOSIT ACTIVITY IN REGULAR ACCOUNTS IN MUTUAL SAVINGS BANKS,[1] BY STATES

(Amounts in thousands of dollars)

State	April 1980					April 1979				
	Amounts Deposited[2]	With-drawals	Net Change in Deposits			Amounts Deposited[2]	With-drawals	Net Change in Deposits		
			Excluding Interest	Incl. Interest				Excluding Interest	Incl. Interest	
				Amt.	%				Amt.	%
Connecticut	1,317,882	1,365,658	—47,776	36,252	.28	766,057	828,227	—62,170	—610	*
Indiana	18,869	18,534	335	1,513	.67	13,040	11,531	1,509	1,510	.70
Maine	262,639	285,250	—22,611	—6,708	—.28	161,122	165,757	—4,635	7,085	.32
Maryland	140,276	139,787	489	8,534	.54	90,994	93,024	—2,030	3,361	.24
Massachusetts	2,472,227	2,708,001	—235,774	—98,272	—.48	1,585,883	1,760,609	—174,726	—69,080	—.34
New Hampshire	288,370	293,611	—5,241	11,613	.49	197,656	206,726	—9,070	2,906	.13
New Jersey	1,233,551	1,227,985	5,566	66,883	.82	509,671	526,586	—16,915	16,627	.21
New York—City	6,422,640	6,889,215	—466,575	—364,949	—.69	3,721,120	4,422,402	—701,282	—631,143	—1.14
—Upstate	2,461,317	2,593,748	—132,431	—64,666	—.29	1,451,795	1,526,780	—74,985	—55,254	—.25
Pennsylvania	1,523,653	1,572,349	—48,696	12,674	.11	1,044,260	1,108,353	—64,093	—24,148	—.21
Rhode Island	193,046	188,635	4,411	7,818	.49	110,939	121,667	—10,728	—7,402	—.48
Vermont	93,034	100,972	—7,938	—3,816	—.48	54,896	59,173	—4,277	3,281	.44
Washington	496,069	552,912	—56,843	—52,055	—1.36	305,762	355,266	—49,504	—48,737	—1.31
Wisconsin	8,535	8,935	—400	—267	—.34	4,424	3,836	588	667	.92
All other states	314,128	324,988	—10,860	—3,658	—.16	178,483	198,479	—19,996	—17,123	—.76
Total	17,246,236	18,270,580	—1,024,344	—449,104	—.31	10,196,102	11,388,416	—1,192,314	—818,060	—.57

Note: See notes to "Assets and Liabilities of All Mutual Savings Banks." [2] Excludes interest credited. * Less than .005%

[1] Excludes special purpose accounts such as checking, Christmas, vacation and school. Source: National Association of Mutual Savings Banks.

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DEPOSIT ACTIVITY IN REGULAR ACCOUNTS IN MUTUAL SAVINGS BANKS

(Amounts in millions of dollars, accounts in thousands)

Period	Amounts Deposited	With-drawals	Net change in deposits			Number of accounts	
			Excluding interest	Including interest			
				Amt.	%	Total	Net Change
Annually							
1975	53,125	48,369	4,757	11,070	11.27	26,284	980
1976	62,429	57,147	5,283	12,269	11.23	27,533	1,151
1977	73,306	70,431	2,874	10,687	8.76	28,825	1,303
1978	91,967	92,558	—591	7,697	5.80	30,472	1,647
1979	121,994	128,955	—6,962	2,492	1.77	n.a.	n.a.
Monthly							
1979—May	9,007	9,348	—341	61	.04	n.a.	n.a.
June	9,719	10,353	—635	1,009	.70	n.a.	n.a.
July	12,630	13,363	—733	—337	—.23	n.a.	n.a.
Aug.	9,829	10,333	—504	—92	—.06	n.a.	n.a.
Sept.	8,924	9,996	—1,072	487	.34	n.a.	n.a.
Oct.	12,699	14,120	—1,421	—1,028	—.71	n.a.	n.a.
Nov.	10,231	10,996	—765	—325	—.23	n.a.	n.a.
Dec.	9,958	10,945	—987	830	.58	n.a.	n.a.
1980—Jan.	13,611	15,047	—1,436	—928	—.64	n.a.	n.a.
Feb.	10,549	11,092	—543	—79	—.05	n.a.	n.a.
Mar.	14,413	15,091	—679	930	.65	n.a.	n.a.
Apr.	17,246	18,271	—1,024	—449	—.31	n.a.	n.a.
May. (Est.)	n.a.	n.a.	200	775	.54	n.a.	n.a.

n.a.—not available. Est.—estimated.

Notes: Annual and monthly data for net change in deposits including interest and net change in number of accounts have been adjusted, where necessary, to exclude the effects of conversions and consolidations of savings banks and other types of institutions. Amounts deposited and withdrawals include shifts of funds between ordinary and time and other higher-yield accounts. Components may not add to totals due to rounding. Source: National Association of Mutual Savings Banks.

ASSETS AND LIABILITIES OF ALL MUTUAL SAVINGS BANKS

(Amounts in millions of dollars)

Date	Mortgages	GNMAs	Investments				Other assets	Total assets-Total liabilities & gen. res. accts.	Deposits			Other liabil-ities	General reserve accounts
			U.S. Govt. & Federal agencies	State & local Govt.	Corpo-rate bonds	Corpo-rate stocks			Total*	Savings	Time		
1975 Dec. 31	77,221	3,367	7,507	1,545	17,536	4,322	9,558	121,056	109,873	69,653	39,639	2,755	8,428
1976 Dec. 31	81,630	5,808	9,109	2,417	20,335	4,381	11,131	134,812	122,877	74,535	47,426	2,884	9,052
1977 Dec. 31	88,195	8,331	9,233	2,828	21,498	4,751	12,450	147,287	134,017	78,005	54,739	3,292	9,978
1978 Dec. 31	95,157	10,021	8,297	3,333	21,566	4,807	14,991	158,174	142,701	71,816	69,354	4,565	10,907
1979 June 30	96,761	11,213	7,995	3,163	21,201	4,870	16,673	161,876	146,194	68,113	76,167	4,477	11,205
July 31	97,252	11,260	7,973	3,136	21,016	4,902	17,100	162,638	145,877	67,531	76,413	5,499	11,262
Aug. 31	97,647	11,325	7,904	3,132	20,925	4,877	17,643	163,451	145,855	66,739	77,113	6,275	11,321
Sept. 30	97,980	11,405	7,874	3,133	20,858	4,816	17,429	163,494	146,394	65,683	78,689	5,715	11,385
Oct. 31	98,311	11,594	7,734	3,083	20,835	4,778	16,862	163,197	145,247	62,678	80,712	6,517	11,434
Nov. 30	98,610	11,626	7,754	3,003	20,647	4,763	16,802	163,205	144,828	61,156	81,908	6,872	11,504
Dec. 31	98,908	11,820	7,658	2,930	20,507	4,760	16,821	163,405	146,006	61,123	82,947	5,873	11,525
1980 Jan. 31	98,940	11,959	7,387	2,887	20,423	4,732	16,925	163,252	145,044	59,252	83,891	6,664	11,544
Feb. 29	99,220	12,154	7,436	2,853	20,498	4,571	17,538	164,270	145,171	58,234	85,050	7,485	11,615
Mar. 31	99,151	12,512	7,629	2,824	20,558	4,423	18,010	165,107	146,328	56,948	87,266	7,136	11,643
Apr. 30	99,045	12,724	7,548	2,791	20,681	4,396	18,180	165,366	145,821	54,247	89,517	7,916	11,629
May. 31 (Est.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	146,546	n.a.	n.a.	n.a.	n.a.
% of Total Assets													
April 30, 1980	59.9	7.7	4.6	1.7	12.5	2.7	11.0	100.0	88.2	32.8	54.1	4.8	7.0
Change during month	—106	212	—81	—33	123	—26	170	259	—507	—2,700	2,251	781	—14

Note: Balance sheet data beginning with April 30, 1979 are not strictly comparable with prior months. This largely reflects: (1) changes in FDIC reporting procedures; and (2) reclassification of certain items.

n.a.—not available. Est.—estimated. Source: National Association of Mutual Savings Banks.

* — Total deposit figures include checking, school, club and certain other accounts not shown separately.

Note: GNMA figures refer to all types of mortgage-backed securities guaranteed by the Government National Mortgage Association.

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Volume 61 August 1980 Number 6

One Bank's LONG, LONG Experience With Short-Term Mortgages

Also: Interagency Task Force Sees Need for Long-Run Thrift Change ■ Posts Large Loss on Ginnie Maes ■ Attack on DIDC Actions Continues ■ Fed Bans Commercial, Guaranty Bank Shared Offices ■ Credit Union Merged by Savings Bank ■ WSFS Quits State Bankers Association ■ Rates Ease, Starts Up

Financial Planning via Computer Model

States Grant Parity With Federal Powers

Industry to Convene Mortgage Conference

State Sues On Federal Charter Application

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"More Than Sixty Years of Continuous Publication"

Volume 61
Number 6

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Mortgaging trends

Rates ease. The average effective interest rates on loans closed fell in early June from the previous month, to their lowest levels since March, the FHLB Board reported last month.

The average effective interest rate on mortgages for new homes dropped to 12.69% from May's 13.68%, and the rate on mortgages for existing homes decreased to 13.31% from May's 14.15%.

The FHLB Board also reported the average term-to-maturity for new homes was 28.3 years in June, compared with 28.8 years the previous month; and for existing homes, the average term was steady at 26.4 years.

The average purchase prices for both new and existing homes eased during the month. In June, the average new home price was $82,000, compared with $88,000 in May; and the existing-home price averaged $63,600, compared with May's $66,600.

Starts rebound. Housing starts increased a record 30% between May and June, and marked the first month-to-month rise since November-December 1979, the Commerce Department reported last month. However, the resulting June starts level still remained relatively low, at a seasonally adjusted annual rate of 1.19 million

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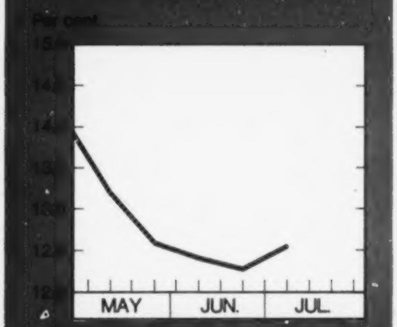
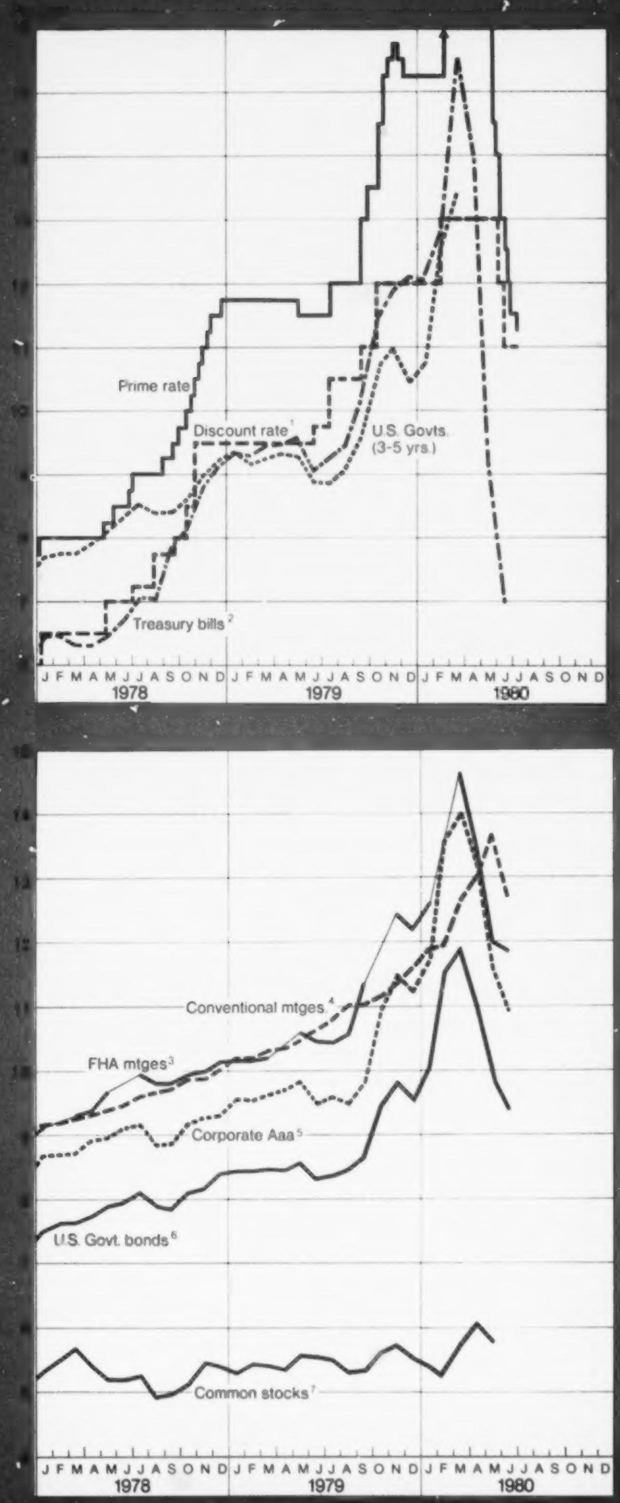
FNMA Commitment Yields



Note: Data are average yields on mortgage commitment bids accepted by the Federal National Mortgage Association at its biweekly auctions. Data are for 120-day bids. Yields are gross of ⅜% servicing fee. Figures assume 30-year mortgages with an assumed prepayment period of 12 years.

SBJ Money and Capital Market Yield Trends



[1] Federal Reserve Bank of New York. [2] Three months, new issue rate. [3] Average secondary market yield on new construction; sec. 203, 30-year maturity, 15-year pre-payment and minimum down-payment. [4] Effective rate for purchase of new single-family homes. [5] New issues. [6] Maturing or callable in 10 years or more. [7] Standard & Poor's 500 stocks dividend-yield ratio.

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SAVINGS BANK STATISTICS

Prepared by RESEARCH AND
ECONOMICS DEPARTMENT
NATIONAL ASSOCIATION
OF MUTUAL SAVINGS BANKS

Jack Rubinson, Director

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Annual

- Assets and Liabilities (by states)
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THE RECOVERY in savings bank deposit flows continued in June for the second consecutive month, even though in June the nation's savings banks experienced an outflow of $100 million, excluding interest, in contrast with the net deposit inflow of $200 million in May. June is normally a seasonally weak deposit month, due to the impact of the month-end interest crediting period when withdrawals generally increase, while May has been an historically strong month. Moreover, the June deposit experience compares favorably with the record $635 million outflow a year earlier, and with deposit losses averaging nearly $1 billion a month in the first quarter of 1980. Early July deposit flows also appear to be better than the comparable 1979 period, according to preliminary reports.

The improvement in June/July flows over the previous year can be attributed primarily to the recent plunge in competing open-market interest rates as the economy slipped into a recession. Short-term rates dropped some 800-900 basis points in April and May, while long-term bond and mortgage rates registered declines of 400-500 basis points. In late June and early July, interest rates crept up about 25-75 basis points above the 1980 lows reached in the third week of June. However, at levels of 7%-8% for short-term investments and 11%-12% for long-term instruments, financial market yields are still far below their 1980 peaks.

Savings bank efforts to attract new savings in this lower interest rate climate were hampered by the erosion of the differential between commercial bank and thrift institution six-month money market certificates. The erosion resulted from actions taken by the Depository Institutions Deregulation Committee in late May. The new regulations set the Treasury bill rate which triggers the thrift differential at a level between 7.26%-8.74%. The full 25 basis point differential, however, was allowed only in the narrower T-bill range of 7.5% to 8.5% and a floor of 7.75% was established for both thrift and commercial bank money market CDs.

The June drop in six-month Treasury bill rates below the triggering 7.25% level eliminated the thrift differential for six-month money market certificates of deposit in this month, weakening the industry's com-

DEPOSIT ACTIVITY IN REGULAR ACCOUNTS IN MUTUAL SAVINGS BANKS,[1] BY STATES

(Amounts in thousands of dollars)

State	May 1980					May 1979				
	Amounts Deposited[2]	Withdrawals	Net Change in Deposits			Amounts Deposited[2]	Withdrawals	Net Change in Deposits		
			Excluding Interest	Incl. Interest				Excluding Interest	Incl. Interest	
				Amt.	%				Amt.	%
Connecticut	989,665	962,433	27,232	119,297	.93	779,101	776,415	2,686	71,008	.57
Indiana	12,293	10,880	1,413	1,493	.66	8,551	8,198	353	354	.16
Maine	211,042	217,855	—6,813	9,411	.40	188,433	187,761	672	12,283	.55
Maryland	103,313	107,335	—4,022	—13	*	81,637	72,494	9,143	14,336	1.02
Massachusetts	2,107,636	2,139,307	—31,671	101,799	.50	1,629,049	1,757,152	—128,103	—25,653	—.13
New Hampshire	237,966	241,945	—3,979	14,282	.60	201,390	205,533	—4,143	8,191	.36
New Jersey	971,365	955,766	15,599	65,961	.80	446,340	437,793	8,547	45,555	.58
New York—City	4,077,051	3,894,461	182,590	293,965	.56	2,864,047	3,069,991	—205,944	—148,214	—.27
—Upstate	1,572,421	1,584,069	—11,648	93,606	.42	1,177,494	1,147,517	29,977	83,376	.38
Pennsylvania	1,500,851	1,430,958	69,893	135,320	1.13	1,026,572	1,060,972	—34,400	6,829	.06
Rhode Island	120,679	115,405	5,274	11,579	.72	104,059	96,516	7,543	12,914	.85
Vermont	65,312	58,711	6,601	10,303	1.31	49,881	50,177	—296	1,609	.21
Washington	333,861	339,239	—5,378	—278	—.01	269,328	270,715	—1,387	—226	—.01
Wisconsin	6,162	6,041	121	437	.56	3,854	3,652	202	273	.37
All other states	249,453	252,543	—3,090	3,660	.16	177,709	203,297	—25,588	—21,767	—.97
Total	12,559,070	12,316,948	242,122	860,822	.60	9,007,445	9,348,183	—340,738	60,868	.04

Note: See notes to "Assets and Liabilities of All Mutual Savings Banks." [2] Excludes interest credited. * Less than .005%

[1] Excludes special purpose accounts such as checking, Christmas, vacation and school. Source: National Association of Mutual Savings Banks.

Table 1

Assets and Liabilities of Mutual Savings Banks, by States, December 31, 1979

(In millions of dollars)

Item	Total	New York	Mass.	Conn.	Pa.	N.J.	Wash.	Me.	N.H.	R.I.	Md.	All other states
ASSETS												
Cash and due from banks	3,156	1,083	438	269	327	592	65	70	69	40	83	120
U.S. Treasury and Federal agency obligations	7,658	3,606	1,599	411	561	501	146	158	153	156	171	196
State and local obligations	2,930	1,847	68	165	685	93	4	8	6	4	5	45
Mortgage investments	110,729	57,997	15,695	10,517	7,687	6,341	3,522	1,880	1,863	1,256	1,045	2,926
Mortgage loans	98,908	50,265	14,377	10,181	6,799	5,267	3,426	1,804	1,767	1,190	1,024	2,810
Mortgage-backed securities	11,820	7,732	1,319	336	888	1,074	96	76	96	67	21	116
Corporate bonds	16,922	10,746	1,503	511	2,713	734	145	91	72	43	93	271
Other bonds, notes and debentures	3,584	2,359	497	242	295	97	16	13	16	17	10	21
Corporate stock	4,760	2,258	944	739	270	122	19	117	137	41	27	86
Other loans	9,253	3,746	1,638	1,201	631	472	445	248	266	132	247	227
Guaranteed education loans	1,274	735	157	142	91	94	7	16	11	10	5	6
Consumer installment loans	1,622	245	432	349	—	88	91	84	108	39	130	56
Home improvement loans	884	370	159	140	5	39	43	23	30	15	40	21
Federal funds	3,076	1,461	496	297	390	179	97	42	36	15	13	50
Passbook loans	1,340	559	315	176	40	64	27	41	42	31	10	34
All other loans	1,058	376	80	98	105	8	179	42	40	21	49	61
Bank premises owned	1,573	727	245	137	76	111	89	38	46	35	14	54
Other real estate	304	139	42	73	3	16	14	2	3	2	*	10
Other assets	2,535	1,484	213	198	217	116	85	25	24	38	78	57
TOTAL ASSETS	163,405	85,993	22,884	14,462	13,465	9,195	4,548	2,652	2,655	1,763	1,774	4,013
LIABILITIES												
Regular deposits	144,070	76,012	20,462	12,695	11,939	8,019	3,832	2,337	2,311	1,572	1,513	3,377
Savings	61,123	31,580	9,874	5,347	4,511	3,329	1,455	1,116	1,043	710	868	1,291
Time	82,947	44,432	10,588	7,349	7,428	4,690	2,378	1,222	1,268	862	645	2,085
School and club	199	86	22	14	46	15	1	2	3	3	2	5
Other deposits	1,737	925	23	142	173	290	28	20	2	1	55	77
Total deposits	146,006	77,022	20,508	12,851	12,159	8,324	3,862	2,360	2,316	1,576	1,570	3,458
Borrowings and mortgage warehousing	3,653	1,978	139	299	367	157	321	57	70	13	21	232
Other liabilities	2,220	1,163	398	186	127	127	51	24	36	27	32	50
TOTAL LIABILITIES	151,879	80,163	21,045	13,337	12,652	8,608	4,234	2,440	2,421	1,617	1,623	3,740
Capital notes and debentures	385	158	—	42	94	52	5	1	4	4	—	26
Other general reserves	11,141	5,672	1,839	1,084	719	536	310	212	230	142	151	247
TOTAL GENERAL RESERVE ACCOUNTS	11,525	5,830	1,839	1,125	813	587	314	212	234	146	151	273
TOTAL LIABILITIES AND GENERAL RESERVE ACCOUNTS	163,405	85,993	22,884	14,462	13,465	9,195	4,548	2,652	2,655	1,763	1,774	4,013
MEMORANDA												
Cash and investments:												
Maturing within one year	9,578	3,751	1,644	833	1,147	969	263	192	183	101	205	290
Maturing within five years	16,126	7,002	2,824	1,163	1,880	1,302	390	305	301	218	310	432
Total mortgage loans	99,675	50,774	14,455	10,235	6,867	5,283	3,428	1,806	1,773	1,198	1,039	2,817
Residential	83,081	41,754	12,296	8,987	5,402	4,592	2,856	1,544	1,502	958	960	2,231
FHA	13,816	10,241	1,166	287	866	693	107	81	66	55	80	172
VA	11,390	6,966	1,476	293	1,185	681	79	273	155	56	121	103
Conventional	57,875	24,546	9,654	8,408	3,350	3,218	2,669	1,189	1,280	846	759	1,956
Nonresidental	16,549	9,013	2,148	1,241	1,465	691	571	261	269	240	79	571
Farm	45	9	11	6	*	*	1	1	2	—	—	15
Total corporate stock	4,760	2,258	945	739	270	122	19	117	137	41	27	86
Preferred	1,823	1,301	102	111	93	79	11	26	16	3	24	56
Common	2,937	956	843	627	176	43	8	91	121	38	3	30
Number of banks	463	112	163	65	9	20	10	29	26	6	3	20

*Less than $500,000.

NOTE: Data for cash and investments maturing within one year and five years include cash, federal funds, securities and open market paper. Consumer installment loan data for New York include checking overdrafts and other loans. Breakdown of mortgage loans shown in memoranda item are gross of valuation reserves.

Source: National Association of Mutual Savings Banks.

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Table 2

Percentage Distribution of Assets and Liabilities of Mutual Savings Banks, by States, December 31, 1979

Item	Total	New York	Mass.	Conn.	Pa.	N.J.	Wash.	Me.	N.H.	R.I.	Md.	All other states
ASSETS												
Cash and due from banks	1.9	1.3	1.9	1.9	2.4	6.4	1.4	2.6	2.6	2.3	4.7	3.0
U.S. Treasury and Federal agency obligations	4.7	4.2	7.0	2.8	4.2	5.5	3.2	6.0	5.8	8.8	9.6	4.9
State and local obligations	1.8	2.1	.3	1.1	5.1	1.0	.1	.3	.2	.2	.3	1.1
Mortgage investments	67.7	67.5	68.6	72.7	57.1	69.0	77.4	70.9	70.2	71.3	58.9	72.9
Mortgage loans	60.5	58.5	62.8	70.4	50.5	57.3	75.3	68.0	66.6	67.5	57.7	70.0
Mortgage-backed securities	7.2	9.0	5.8	2.3	6.6	11.7	2.1	2.9	3.6	3.8	1.2	2.9
Corporate bonds	10.4	12.5	6.6	3.5	20.1	8.0	3.2	3.4	2.7	2.4	5.3	6.8
Other bonds, notes and debentures	2.2	2.7	2.2	1.7	2.2	1.1	.4	.5	.6	1.0	.6	.5
Corporate stock	2.9	2.6	4.1	5.1	2.0	1.3	.4	4.4	5.1	2.3	1.5	2.1
Other loans	5.7	4.4	7.2	8.3	4.7	5.1	9.8	9.3	10.0	7.5	13.9	5.7
Guaranteed education loans	.8	.9	.7	1.0	.7	1.0	.1	.6	.4	.6	.3	.2
Consumer installment loans	1.0	.3	1.9	2.4	—	1.0	2.0	3.2	4.1	2.2	7.3	1.4
Home improvement loans	.5	.4	.7	1.0	*	.4	1.0	.9	1.1	.9	2.3	.5
Federal funds	1.9	1.7	2.2	2.1	2.9	1.9	2.1	1.6	1.4	.8	.7	1.2
Passbook loans	.8	.7	1.4	1.2	.3	.7	.6	1.6	1.6	1.8	.6	.9
All other loans	.6	.4	.3	.6	.8	.1	4.0	1.4	1.4	1.2	2.7	1.5
Bank premises owned	1.0	.8	1.1	.9	.6	1.2	1.9	1.4	1.7	2.0	.8	1.4
Other real estate	.2	.2	.2	.5	*	.2	.3	.1	.1	*	*	.2
Other assets	1.6	1.7	.9	1.4	1.6	1.3	1.9	1.0	.9	2.1	4.4	1.4
TOTAL ASSETS	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
LIABILITIES												
Regular deposits	88.2	88.4	89.4	87.8	88.7	87.2	84.3	88.1	87.0	89.2	85.3	84.2
Savings	37.4	36.7	43.2	37.0	33.5	36.2	32.0	42.1	39.3	40.3	48.9	32.2
Time	50.8	51.7	46.3	50.8	55.2	51.0	52.3	46.1	47.8	48.9	36.4	52.0
School and club	.1	.1	.1	.1	.3	.2	*	.1	.1	.2	.1	.1
Other deposits	1.1	1.1	.1	1.0	1.3	3.2	.6	.7	.1	.1	3.1	1.9
Total deposits	89.4	89.6	89.6	88.9	90.3	90.5	84.9	89.0	87.2	89.4	88.5	86.2
Borrowings and mortgage warehousing	2.2	2.3	.6	2.1	2.7	1.7	7.1	2.1	2.6	.7	1.2	5.8
Other liabilities	1.4	1.4	1.7	1.3	.9	1.4	1.1	.9	1.4	1.6	1.8	1.2
TOTAL LIABILITIES	92.9	93.3	91.9	92.3	93.9	93.6	93.1	92.0	91.2	91.7	91.5	93.2
Capital notes and debentures	.2	.2	—	.3	.7	.6	.1	*	.2	.2	—	.7
Other general reserves	6.8	6.6	8.0	7.5	5.3	5.8	6.8	8.0	8.7	8.0	8.5	6.1
TOTAL GENERAL RESERVE ACCOUNTS	7.1	6.8	8.0	7.8	6.0	6.4	6.9	8.0	8.8	8.3	8.5	6.8
TOTAL LIABILITIES AND GENERAL RESERVE ACCOUNTS	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
MEMORANDA												
Cash and investments:	(Per cent of total assets)											
Maturing within one year	5.9	4.4	7.2	5.8	8.5	10.5	5.8	7.2	6.9	7.2	11.6	7.2
Maturing within five years	9.9	8.1	12.3	8.0	14.0	14.2	10.8	11.5	11.3	13.9	17.5	10.8
	(Percentage distribution)											
Total mortgage loans	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Residential	83.4	82.2	85.1	87.8	78.7	86.9	83.3	85.5	84.7	80.0	92.4	79.2
FHA	13.9	20.2	8.1	2.8	12.6	13.1	3.1	4.5	3.7	4.6	7.7	6.1
VA	11.4	13.7	10.2	2.9	17.3	12.9	2.3	15.1	8.8	4.7	11.6	3.7
Conventional	58.1	48.3	66.8	82.1	48.8	60.9	77.9	65.9	72.2	70.6	73.0	69.4
Nonresidential	16.6	17.8	14.9	12.1	21.3	13.1	16.7	14.5	15.2	20.0	7.6	20.3
Farm	*	*	.1	.1	*	*	*	.1	.1	—	—	.5
Total corporate stock	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Preferred	38.3	57.6	10.8	15.1	34.6	64.6	58.2	22.4	11.8	7.9	87.8	65.1
Common	61.7	42.4	89.2	84.9	65.4	35.4	41.8	77.6	88.2	92.1	12.2	34.9

*Less than .05%

NOTE: See note to Table 1.

Source: National Association of Mutual Savings Banks.

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petitive position.

In addition, the precipitous decline in short-term rates made many holders of maturing six-month certificates decide against renewal at sharply lower interest rate levels. As a result, outstanding balances in these accounts at savings banks slumped in June for the second consecutive month by a substantial $1.1 billion in contrast to the $500 million gain a year earlier.

Also contributing to the limited improvement in June deposit flows was continued strong competition from money market mutual funds, despite the narrowing of yields between these investments and six-month money market certificates. Reflecting a yield advantage of 200 basis points above money market certificate ceiling rates in the first half of the month and 110 basis points in the second half, money market fund assets increased by a substantial $4.4 billion in the five-week period ending July 2.

Thus, it is clear that while a major improvement in savings bank deposit trends has occurred in the new, lower interest-rate-environment, a vigorous rebound in industry flows is not yet in evidence. (END)

DEPOSIT ACTIVITY IN REGULAR ACCOUNTS IN MUTUAL SAVINGS BANKS

(Amounts in millions of dollars, accounts in thousands)

Period	Amounts Deposited	With-drawals	Net change in deposits			Number of accounts	
			Excluding interest	Including interest		Total	Net Change
				Amt.	%		
Annually							
1975	53,125	48,369	4,757	11,070	11.27	26,284	980
1976	62,429	57,147	5,283	12,269	11.23	27,533	1,151
1977	73,306	70,431	2,874	10,687	8.76	28,825	1,303
1978	91,967	92,558	—591	7,697	5.80	30,472	1,647
1979	121,994	128,955	—6,962	2,492	1.77	n.a.	n.a.
Monthly							
1979—June	9,719	10,353	—635	1,009	.70	n.a.	n.a.
July	12,630	13,363	—733	—337	—.23	n.a.	n.a.
Aug.	9,829	10,333	—504	—92	—.06	n.a.	n.a.
Sept.	8,924	9,996	—1,072	487	.34	n.a.	n.a.
Oct.	12,699	14,120	—1,421	—1,028	—.71	n.a.	n.a.
Nov.	10,231	10,996	—765	—325	—.23	n.a.	n.a.
Dec.	9,958	10,945	—987	830	.58	n.a.	n.a.
1980—Jan.	13,611	15,047	—1,436	—928	—.64	n.a.	n.a.
Feb.	10,549	11,092	—543	—79	—.05	n.a.	n.a.
Mar.	14,413	15,091	—679	930	.65	n.a.	n.a.
Apr.	17,246	18,271	—1,024	—449	—.31	n.a.	n.a.
May	12,559	12,317	242	861	.60	n.a.	n.a.
June (Est.)	n.a.	n.a.	—100	1700	1.18	n.a.	n.a.

n.a.—not available. Est.—estimated.

Note: Annual and monthly data for net change in deposits including interest and net change in number of accounts have been adjusted, where necessary, to exclude the effects of conversions and consolidations of savings banks and other types of institutions. Amounts deposited and withdrawals include shifts of funds between ordinary and time and other higher-yield accounts. Components may not add to totals due to rounding. Source: National Association of Mutual Savings Banks.

ASSETS AND LIABILITIES OF ALL MUTUAL SAVINGS BANKS

(Amounts in millions of dollars)

Date	Mortgages	GNMAs	Investments				Other assets	Total assets-Total liabilities & gen. res. accts.	Deposits			Other liabil-ities	General reserve accounts
			U.S. Govt. & Federal agencies	State & local Govt	Corpo-rate bonds	Corpo-rate stocks			Total*	Savings	Time		
1975 Dec. 31	77,221	3,367	7,507	1,545	17,536	4,322	9,558	121,056	109,873	69,653	39,639	2,755	8,428
1976 Dec. 31	81,630	5,808	9,109	2,417	20,335	4,381	11,131	134,812	122,877	74,535	47,426	2,884	9,052
1977 Dec. 31	88,195	8,331	9,233	2,828	21,498	4,751	12,450	147,287	134,017	78,005	54,739	3,292	9,978
1978 Dec. 31	95,157	10,021	8,297	3,333	21,566	4,807	14,991	158,174	142,701	71,816	69,354	4,565	10,907
1979 July 31	97,252	11,260	7,973	3,136	21,016	4,902	17,100	162,638	145,877	67,531	76,413	5,499	11,262
Aug. 31	97,647	11,325	7,904	3,132	20,925	4,877	17,643	163,451	145,855	66,739	77,113	6,275	11,321
Sept. 30	97,980	11,405	7,874	3,133	20,858	4,816	17,429	163,494	146,394	65,683	78,689	5,715	11,385
Oct. 31	98,311	11,594	7,734	3,083	20,835	4,778	16,862	163,197	145,247	62,678	80,712	6,517	11,434
Nov. 30	98,610	11,626	7,754	3,003	20,647	4,763	16,802	163,205	144,828	61,156	81,908	6,872	11,504
Dec. 31	98,908	11,820	7,658	2,930	20,507	4,760	16,821	163,405	146,006	61,123	82,947	5,873	11,525
1980 Jan. 31	98,940	11,959	7,387	2,887	20,423	4,732	16,925	163,252	145,044	59,252	83,891	6,664	11,544
Feb. 29	99,220	12,154	7,436	2,853	20,498	4,571	17,538	164,270	145,171	58,234	85,050	7,485	11,615
Mar. 31	99,151	12,512	7,629	2,824	20,558	4,423	18,010	165,107	146,328	56,948	87,266	7,136	11,643
Apr. 30	99,045	12,724	7,548	2,791	20,681	4,396	18,180	165,366	145,821	54,247	89,517	7,916	11,629
May 31	99,163	12,975	7,527	2,727	20,864	4,407	18,679	166,340	146,637	54,669	89,977	8,162	11,542
June 30 (Est.)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	148,437	n.a.	n.a.	n.a.	n.a.
% of Total Assets													
May 31, 1980	59.6	7.8	4.5	1.6	12.5	2.6	11.2	100.0	88.2	32.9	54.1	4.9	6.9
Change during month	97	251	—21	—65	183	10	499	954	795	414	447	245	—86

Note: Balance sheet data beginning with April 30, 1979 are not strictly comparable with prior months. This largely reflects: (1) changes in FDIC reporting procedures; and (2) reclassification of certain items.

n.a.—not available. Est.—estimated. Source: National Association of Mutual Savings Banks.

* — Total deposit figures include checking, school, club and certain other accounts not shown separately.

Note: GNMA figures refer to all types of mortgage-backed securities guaranteed by the Government National Mortgage Association.

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100 Largest Savings Banks...

. . . ranked by June 30, 1980 deposits

Rank on 6-30-80		Deposits in thousands of dollars	Rank on 12-31-79
1.	The Philadelphia (Pa.) Saving Fund Society	$6,128,801	1.
2.	The Bowery Savings Bank, New York City	4,813,970	2.
3.	The Dime Savings Bank of New York, New York City	4,405,598	3.
4.	The New York Bank for Savings, New York City	3,113,097	4.
5.	Emigrant Savings Bank, New York City	2,883,110	5.
6.	The Howard Savings Bank, Newark, N.J.	2,508,641	7.
7.	Dollar Savings Bank of New York, New York City	2,488,124	6.
8.	Buffalo (N.Y.) Savings Bank	2,377,269	8.
9.	The Western Saving Fund Society of Philadelphia, Pa.	2,149,912	10.
10.	The Manhattan Savings Bank, New York City	2,083,358	9.
11.	Dry Dock Savings Bank, New York City	2,038,071	11.
12.	The Williamsburgh Savings Bank, New York City	1,994,395	12.
13.	The Greenwich Savings Bank, New York City	1,992,199	14.
14.	Erie Savings Bank, Buffalo, N.Y.	1,917,493	13.
15.	Washington Mutual Savings Bank, Seattle	1,860,825	15.
16.	The Lincoln Savings Bank, New York City	1,844,769	16.
17.	People's Savings Bank-Bridgeport, Conn.	1,787,190	17.
18.	Metropolitan Savings Bank, New York City	1,778,716	18.
19.	Anchor Savings Bank, New York City	1,585,724	21.
20.	The Seamen's Bank for Savings, New York City	1,583,235	19.
21.	The Greater New York Savings Bank, New York City	1,566,919	20.
22.	East River Savings Bank, New York City	1,479,055	22.
23.	The Brooklyn Savings Bank, New York City	1,463,920	26.
24.	Beneficial Mutual Savings Bank, Philadelphia, Pa.	1,459,824	23.
25.	Society for Savings, Hartford, Conn.	1,424,821	24.
26.	Franklin Savings Bank of New York, New York City	1,325,472	25.
27.	Jamaica Savings Bank, New York City	1,279,803	27.
28.	Union Dime Savings Bank, New York City	1,210,735	29.
29.	Germantown Savings Bank, Bala-Cynwyd, Pa.	1,194,768	28.
30.	Albany (N.Y.) Savings Bank	1,190,397	30.
31.	Dollar Savings Bank, Pittsburgh, Pa.	1,130,117	31.
32.	Hudson City Savings Bank, Jersey City, N.J.	1,082,190	33.
33.	The Community Savings Bank, Rochester, N.Y.	1,067,663	32.
34.	Schenectady (N.Y.) Savings Bank	1,063,435	34.
35.	The Green Point Savings Bank, New York City	1,006,060	35.
36.	The Long Island Savings Bank, New York City	985,048	36.
37.	Independence Savings Bank, New York City	949,829	37.
38.	The East New York Savings Bank, New York City	932,073	40.
39.	The Savings Bank of Baltimore, Md.	920,328	43.
40.	Ridgewood Savings Bank, New York City	879,792	38.
41.	The Provident Institution for Savings, Boston, Mass.	872,544	39.
42.	The Boston (Mass.) Five Cents Savings Bank	867,783	42.
43.	The Western New York Savings Bank, Buffalo, N.Y.	861,319	41.
44.	Onondaga Savings Bank, Syracuse, N.Y.	855,216	47.
45.	The Farmers and Mechanics Savings Bank of Minneapolis, Minn.	831,623	44.
46.	Rochester (N.Y.) Savings Bank	804,773	46.
47.	United Mutual Savings Bank, New York City	794,066	45.
48.	Peoples Westchester Savings Bank, Tarrytown, N.Y.	785,754	48.
49.	Central Savings Bank, New York City	770,554	49.
50.	Syracuse (N.Y.) Savings Bank	759,308	52.
51.	Eastern Savings Bank, New York City	726,632	50.

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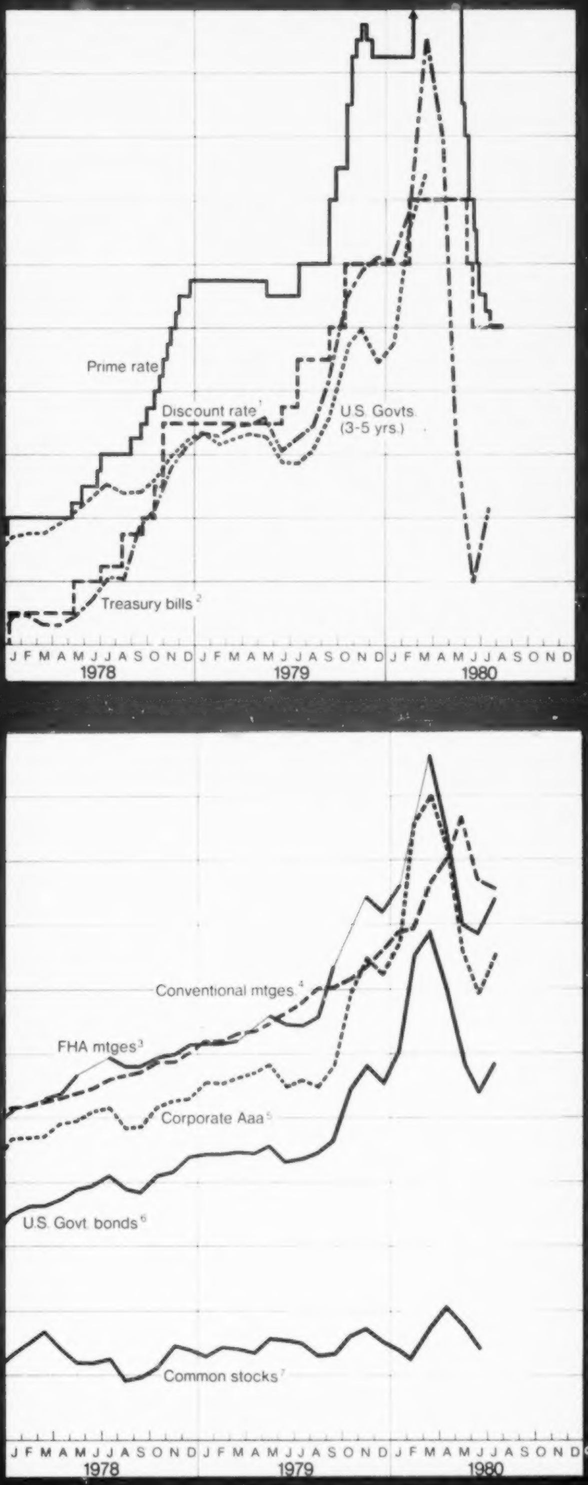
The $108.8 billion of total deposits held by the nation's 100 largest savings banks at midyear represented a $1.4 billion increase for these institutions during the first six months of 1980.

Rank on 6-30-80		Deposits in thousands of dollars	Rank on 12-31-79
52.	Connecticut Savings Bank, New Haven	725,267	56.
53.	The New Haven (Conn.) Savings Bank	724,287	54.
54.	Harlem Savings Bank, New York City	715,158	51.
55.	Charlestown Savings Bank, Boston, Mass	704,543	53.
56.	Roosevelt Savings Bank, New York City	703,393	55.
57.	Wilmington (Del.) Savings Fund Society	703,246	57.
58.	The Morris County Savings Bank, Morristown, N.J.	671,477	61.
59.	Empire Savings Bank, New York City	656,157	60.
60.	The Queens County Savings Bank, New York City	654,989	58.
61.	Provident Savings Bank, Jersey City, N.J.	649,125	62.
62.	Hamburg Savings Bank, New York City	642,391	59.
63.	Citizens Savings Bank, Providence, R.I.	603,456	65.
64.	Provident Savings Bank of Baltimore, Md.	589,046	66.
65.	Suffolk Franklin Savings Bank, Boston, Mass.	584,227	64.
66.	Richmond Hill Savings Bank, New York City	574,158	63.
67.	The Roslyn (N.Y.) Savings Bank	5[illegible]3,307	68.
68.	The Banking Center, Waterbury, Conn.	559,321	69.
69.	Fidelity Mutual Savings Bank, Spokane, Wash.	555,967	67.
70.	United States Savings Bank of Newark, N.J.	539,654	72.
71.	The Binghamton (N.Y.) Savings Bank	524,835	71.
72.	The Dime Savings Bank of Williamsburgh, New York City	493,530	73.
73.	North Side Savings Bank, New York City	486,769	70.
74.	Monroe Savings Bank, Rochester, N.Y.	477,142	81.
75.	Staten Island Savings Bank, New York City	473,191	76.
76.	The Savings Bank of Utica, N.Y.	472,721	77.
77.	Mutual Bank for Savings, Newton, Mass.	471,758	74.
78.	Springfield (Mass.) Institution for Savings	463,407	75.
79.	Mechanics and Farmers Savings Bank, Bridgeport, Conn.	460,568	80.
80.	American Savings Bank, New York City	453,701	79.
81.	The Poughkeepsie (N.Y.) Savings Bank	452,246	78.
82.	Worcester (Mass.) County Institution for Savings	451,331	82.
83.	Orange (N.J.) Savings Bank	445,249	83.
84.	The Permanent Savings Bank, Niagara Falls, N.Y.	431,308	85.
85.	Union Warren Savings Bank, Boston, Mass.	428,631	93.
86.	American Savings Bank, New Britain, Conn.	423,830	87.
87.	Maine Savings Bank, Portland	419,431	86.
88.	Bloomfield (N.J.) Savings Bank	418,706	84.
89.	South Boston Savings Bank, Boston, Mass.	411,553	88.
90.	Amoskeag Savings Bank, Manchester, N.H.	405,551	92.
91.	Eastchester Savings Bank, Mount Vernon, N.Y.	397,150	90.
92.	Lincoln Mutual Savings Bank, Spokane, Wash.	391,622	89.
93.	Mechanics Savings Bank, Hartford, Conn.	382,976	94.
94.	The Home Savings Bank, White Plains, N.Y.	382,391	91.
95.	New Brunswick (N.J.) Savings Bank	379,870	96.
96.	Home Savings Bank, Boston, Mass.	367,329	95.
97.	The Perth Amboy (N.J.) Savings Institution	365,946	97.
98.	The Troy (N.Y.) Savings Bank	356,288	—
99.	Harmonia Savings Bank, Elizabeth, N.J.	355,032	—
100.	Community Savings Bank, Holyoke, Mass.	350,523	—
	Total deposits, 100 largest	$108,790,072	
	Total deposits, all savings banks	$148,562,654	

SBJ Money and Capital Market Yield Trends



[1] Federal Reserve Bank of New York. [2] Three months, [illegible] [illegible]

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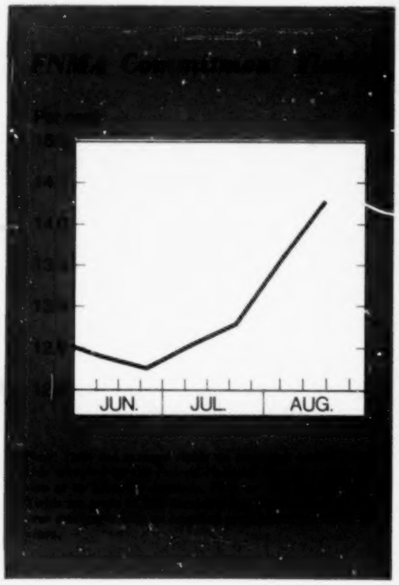
Mortgaging trends

Rates fall. The average effective interest rates on loans for new and existing homes continued to ease in July, according to the FHLB Board. The Bank Board reported last month that the average effective interest rate on loans for new homes dropped to 12.51% in July, from June's 12.66%, while the average effective interest rate on loans for existing homes decreased to 12.66% in July from June's 13.30%.

The average term-to-maturity for both new and existing homes turned up during the month: for new homes, the term rose to 28.9 years, from 28.4 years in June; for existing homes, the term increased to 27.2 years, from 26.5 years the previous month.



The Bank Board also reported that average home prices were on the rise. The average purchase price for new homes increased to $89,000 in July, compared with $81,000 in June, and the average purchase price for existing homes, reached $67,700 from $64,200.

Starts on rise. Housing starts increased for the second consecutive month, reaching a seasonally adjusted annual rate of 1.26 million units in July from 1.21 million units the previous month, the Commerce Department reported last month.

Single-family starts in July rose to a seasonally adjusted annual rate of 865,000 units, compared with 760,000 in June; however, multifamily starts moved down slightly to a seasonally adjusted annual rate of 401,000 units, compared with 448,000 units in June.

The July starts-level, however, still fell much below the year-ago July's 1.76 million units.

Permits increase. July proved another good month for building permits, according to the Commerce Department: the number of permits issued rose to a seasonally adjusted annual rate of 1.24 million, from 1.08 million in June.

Single-family permits increased to a seasonally adjusted annual rate of 792,000 in July, compared with 628,000 the previous month. Multifamily permits stayed just about even, inching down to a seasonally adjusted annual rate of 448,000 in July, from 450,000 the previous month.

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SAVINGS BANK STATISTICS

Prepared by RESEARCH AND
ECONOMICS DEPARTMENT
NATIONAL ASSOCIATION
OF MUTUAL SAVINGS BANKS

Jack Rubinson, Director

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THE RETURN FLOW of deposits to mutual savings banks continued in July for the third consecutive month with a net inflow of $200 million, excluding interest. The July excess of new deposits over withdrawals in this seasonally strong month represented only a modest gain over the $100 million outflow in the previous month of typically weak flows. However, the July increase represented a substantial improvement over the unfavorable deposit experience a year earlier when the industry recorded a massive $733 million deposit loss. Including interest of $600 million credited to depositors' accounts, outstanding savings and time deposits increased by $800 million. Industry deposit flows in early August also continued to show gains, according to preliminary reports.

The lack of vigor in the industry's recovery from the worst disintermediation period in savings bank history was evident in the widely varying deposit experience among individual banks. On the other hand, savings banks in New York City, one of the worst affected areas during the 1979-80 disintermediation period, showed substantial gains, chiefly as a result of aggressive promotional campaigns involving gifts and "finders' fees."

The improved July deposit showing of the industry reflected the continued beneficial effects of generally reduced interest rate levels which reduced yields on competing investments such as Treasury obligations and money market funds. Federal regulatory changes of late May, which imposed heavier withdrawal penalties on time accounts may also have been a factor.

July deposit gains were limited primarily to market-linked 30-month certificate of deposit accounts and to 5.5% passbook accounts, with both types registering sizable increases. The $1.8 billion net gain in the former partly reflected the fact that investors could earn more on the 9.5%, 30-month certificates in this period than on money market funds or Treasury securities. The funds deposited in passbook accounts, however, clearly represent highly unstable balances that are likely to be shifted into higher yielding alternative investments as soon as short-term interest rates rise sufficiently.

The anticipated shift from money market funds into such competing savings bank instruments as six-month certificates of deposit, however, did not

DEPOSIT ACTIVITY IN REGULAR ACCOUNTS IN MUTUAL SAVINGS BANKS,[1] BY STATES

(Amounts in thousands of dollars)

State	June 1980					June 1979				
	Amounts Deposited[2]	Withdrawals	Net Change in Deposits			Amounts Deposited[2]	Withdrawals	Net Change in Deposits		
			Excluding Interest	Incl. Interest				Excluding Interest	Incl. Interest	
				Amt.	%				Amt.	%
Connecticut	868,084	907,975	—39,891	62,129	.48	807,484	817,917	—10,433	89,447	.72
Indiana	9,437	8,514	923	2,145	.94	8,731	9,042	—311	1,204	.56
Maine	210,640	208,963	1,677	17,886	.75	178,833	178,184	649	12,613	.56
Maryland	107,142	114,468	—7,326	10,959	.69	73,546	72,897	649	3,453	.24
Massachusetts	1,946,576	1,943,889	2,687	140,384	.68	1,814,121	1,888,356	—74,235	7,895	.04
New Hampshire	231,029	235,990	—4,961	14,297	.60	227,589	224,355	3,234	19,670	.87
New Jersey	695,898	715,233	—19,335	39,287	.47	532,506	565,635	—33,129	41,156	.53
New York—City	3,784,236	3,759,254	24,982	966,100	1.82	2,892,839	3,379,704	—486,865	383,259	.70
—Upstate	1,541,968	1,565,934	—23,966	271,622	1.21	1,370,064	1,390,196	—20,132	278,472	1.28
Pennsylvania	1,225,205	1,255,973	—30,768	81,029	.67	1,099,276	1,117,640	—18,364	69,950	.60
Rhode Island	97,803	106,836	—9,033	4,838	.30	101,672	108,143	—6,471	6,383	.42
Vermont	60,041	62,697	— 2,656	4,403	.55	80,546	82,763	—2,217	6,969	.93
Washington	333,487	346,846	—13,359	62,267	1.65	308,801	317,419	—8,618	47,343	1.30
Wisconsin	6,003	5,697	306	880	1.12	4,720	4,139	581	1,045	1.42
All other states	270,771	281,153	—10,382	15,199	.67	218,032	196,921	21,111	40,624	1.82
Total	11,388,320	11,519,422	—131,102	1,693,425	1.17	9,718,760	10,353,311	—634,551	1,009,483	.70

Note: See notes to "Assets and Liabilities of All Mutual Savings Banks." [2] Excludes interest credited.

[1] Excludes special purpose accounts such as checking, Christmas, vacation and school. Source: National Association of Mutual Savings Banks.

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occur in July, despite the steady drop in fund yields to the 8%-8.5% range, or roughly 40-50 basis points below those available on the six-month money market certificates. Although total asset growth of the funds also fell—to roughly half the $2 billion average weekly gain recorded in May—savings banks experienced a further run-off of $1.4 billion in outstanding balances of the six-month certificates in July. This even exceeded the heavy losses in May and June.

The weak six-month money market certificate showing also occurred despite the favorable rate position of these certificates relative to commercial banks in July, when ceiling rates on these instruments commanded the full .25% differential over commercial banks for nearly the entire month.

With interest rates again on the rise, the ability of savings banks to compete for the depositor's dollar will again be weakened. While this does not necessarily signify an end to the deposit recovery of the past few months, it is likely that deposit growth in the near-term will continue to be weak. (END)

DEPOSIT ACTIVITY IN REGULAR ACCOUNTS IN MUTUAL SAVINGS BANKS

(Amounts in millions of dollars, accounts in thousands)

Period	Amounts Deposited	With-drawals	Net change in deposits: Excluding interest	Net change in deposits: Including interest: Amt.	Net change in deposits: Including interest: %	Number of accounts: Total	Number of accounts: Net Change
Annually							
1975	53,125	48,369	4,757	11,070	11.27	26,284	980
1976	62,429	57,147	5,283	12,269	11.23	27,533	1,151
1977	73,306	70,431	2,874	10,687	8.76	28,825	1,303
1978	91,967	92,558	—591	7,697	5.80	30,472	1,647
1979	121,994	128,955	—6,962	2,492	1.77	n.a.	n.a.
Monthly							
1979—July	12,630	13,363	—733	—337	—.23	n.a.	n.a.
Aug.	9,829	10,333	—504	—92	—.06	n.a.	n.a.
Sept.	8,924	9,996	—1,072	487	.34	n.a.	n.a.
Oct.	12,699	14,120	—1,421	—1,028	—.71	n.a.	n.a.
Nov.	10,231	10,996	—765	—325	—.23	n.a.	n.a.
Dec.	9,958	10,945	—987	830	.58	n.a.	n.a.
1980—Jan.	13,611	15,047	—1,436	—928	—.64	n.a.	n.a.
Feb.	10,549	11,092	—543	—79	—.05	n.a.	n.a.
Mar.	14,413	15,091	—679	930	.65	n.a.	n.a.
Apr.	17,246	18,271	—1,024	—449	—.31	n.a.	n.a.
May	12,559	12,317	242	861	.60	n.a.	n.a.
June	11,388	11,519	—131	1,693	1.17	n.a.	n.a.
July (Est.)	n.a.	n.a.	200	800	.55	n.a.	n.a.

n.a.—not available. Est.—estimated.

Note: Annual and monthly data for net change in deposits including interest and net change in number of accounts have been adjusted, where necessary, to exclude the effects of conversions and consolidations of savings banks and other types of institutions. Amounts deposited and withdrawals include shifts of funds between ordinary and time and other higher-yield accounts. Components may not add to totals due to rounding. Source: National Association of Mutual Savings Banks.

ASSETS AND LIABILITIES OF ALL MUTUAL SAVINGS BANKS

(Amounts in millions of dollars)

Date	Mortgages	GNMAs	Investments: U.S. Govt. & Federal agencies	Investments: State & local Govt.	Investments: Corporate bonds	Investments: Corporate stocks	Other assets	Total assets-Total liabilities & gen. res. accts.	Deposits: Total*	Deposits: Savings	Deposits: Time	Other liabilities	General reserve accounts
1975 Dec. 31	77,221	3,367	7,507	1,545	17,536	4,322	9,558	121,056	109,873	69,653	39,639	2,755	8,428
1976 Dec. 31	81,630	5,808	9,109	2,417	20,335	4,381	11,131	134,812	122,877	74,535	47,426	2,884	9,052
1977 Dec. 31	88,195	8,331	9,233	2,828	21,498	4,751	12,450	147,287	134,017	78,005	54,739	3,292	9,978
1978 Dec. 31	95,157	10,021	8,297	3,333	21,566	4,807	14,991	158,174	142,701	71,816	69,354	4,565	10,907
1979 Aug. 31	97,647	11,325	7,904	3,132	20,925	4,877	17,643	163,451	145,855	66,739	77,113	6,275	11,321
Sept. 30	97,980	11,405	7,874	3,133	20,858	4,816	17,429	163,494	146,394	65,683	78,689	5,715	11,385
Oct. 31	98,311	11,594	7,734	3,083	20,835	4,778	16,862	163,197	145,247	62,678	80,712	6,517	11,434
Nov. 30	98,610	11,626	7,754	3,003	20,647	4,763	16,802	163,205	144,828	61,156	81,908	6,872	11,504
Dec. 31	98,908	11,820	7,658	2,930	20,507	4,760	16,821	163,405	146,006	61,123	82,947	5,873	11,525
1980 Jan. 31	98,940	11,959	7,387	2,887	20,423	4,732	16,925	163,252	145,044	59,252	83,891	6,664	11,544
Feb. 29	99,220	12,154	7,436	2,853	20,498	4,571	17,538	164,270	145,171	58,234	85,050	7,485	11,615
Mar. 31	99,151	12,512	7,629	2,824	20,558	4,423	18,010	165,107	146,328	56,948	87,266	7,136	11,643
Apr. 30	99,045	12,724	7,548	2,791	20,681	4,396	18,180	165,366	145,821	54,247	89,517	7,916	11,629
May 31	99,163	12,975	7,527	2,727	20,864	4,407	18,679	166,340	146,637	54,669	89,977	8,162	11,542
June 30	99,150	12,843	7,530	2,701	21,079	4,403	19,295	167,002	148,563	56,329	90,065	6,975	11,465
July 31 (Est.)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	149,363	n.a.	n.a.	n.a.	n.a.
% of Total Assets													
June 30, 1980	59.4	7.7	4.5	1.6	12.6	2.6	11.6	100.0	89.0	33.7	53.9	4.2	6.9
Change during month	—20	—132	—7	—25	197	—4	592	601	1,872	1,622	71	—1,190	—81

Note: Balance sheet data beginning with April 30, 1979 are not strictly comparable with prior months. This largely reflects: (1) changes in FDIC reporting procedures; and (2) reclassification of certain items.

n.a.—not available. Est.—estimated. Source: National Association of Mutual Savings Banks.

* — Total deposit figures include checking, school, club and certain other accounts not shown separately.

Note: GNMA figures refer to all types of mortgage-backed securities guaranteed by the Government National Mortgage Association.

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Volume 61 October 1980 Number 8

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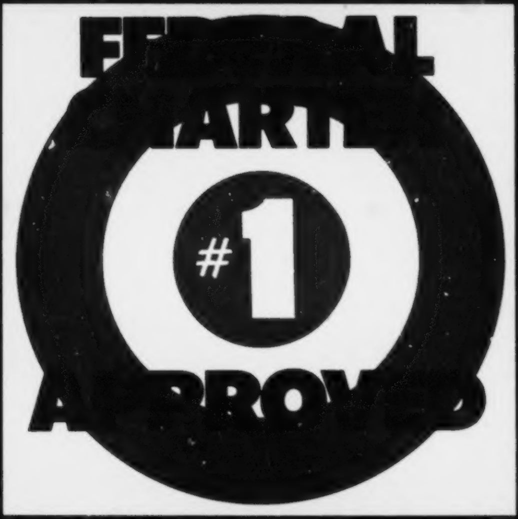

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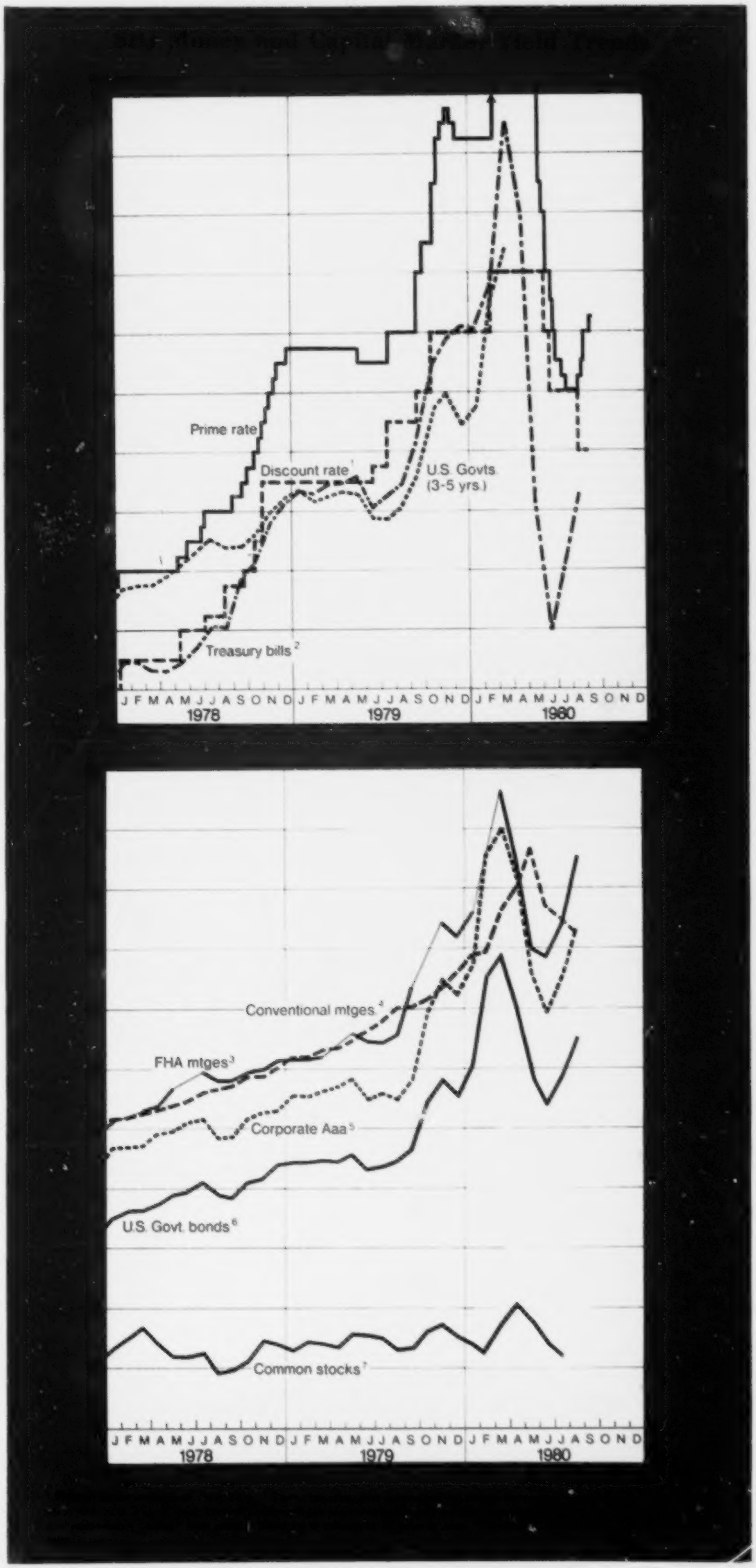
PMM survey findings based on data gathered from five banks and 30 companies participating in ACH processing of 5,519 paychecks averaging $153 in amount. "On average," he said, "we found that the originating banks were losing a little less than four days in float. On the other hand, we found that the recipient banks would pick up a little over one day; it would be in the bank a little over one day earlier than with the traditional system."

Another dimension to direct deposit pricing was offered the ACH conference delegates by PMM's Peter Louderback, national practice director for EFT and bank operations consulting. A survey is in progress, Louderback said, that will develop a model for financial institutions to use in developing their own costs and pricing of direct deposit services. Results of the completed study being cosponsored by NAMSB and other industry and government sources, will be published later this year, but Louderback revealed some preliminary findings.

- On non-direct deposit of payroll, the study has found an incremental cost of 10¢ to handle a transaction, either by teller or by mail;
- It takes twice as long to handle a Social Security transaction as a normal transaction;
- Where the transaction is a "cash-back" transaction, it costs "a couple of more cents each over the 10¢ figure to handle;
- Overall, survey data suggest a cost of approximately 15¢ less per transaction through direct deposit than over the teller counter. "The cost difference between a direct deposit and a bank-by-mail transaction is staggering—the cost of a direct deposit transaction being in the neighborhood of 50¢ per transaction less than that of bank-by-mail," Louderback said.



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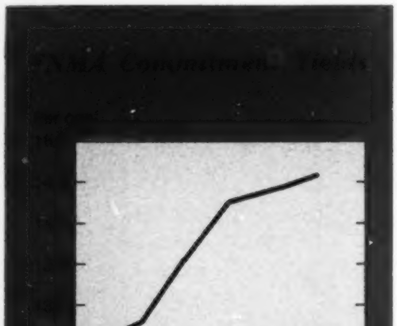
Mortgaging trends

Rates drop. The average effective interest rates on loans for new and existing homes dropped further between July and August, the FHLB Board reported last month. The average effective interest rate on loans for new homes fell to 12.24% in August from 12.48% in July; while the average effective interest rate on loans for existing homes declined to 12.27% from July's 12.61%.



The Board also reported the average term-to-maturity for new homes was 28.1 years in August, compared with the previous month's 28.9 years; the average term for existing homes was 27.0 years in August, compared with July's 27.2 years.

In addition, there was some easing in home prices for new homes between July and August. The average purchase price for new homes in August fell to $88,700 from $90,100; but for existing homes, the average purchase price in August rose to $71,000 from $68,800.

Starts up. Housing starts rose again in the third month of recovery to a seasonally adjusted annual rate of 1.39 million units in August. The starts rate compared with 1.24 million units in July and 1.78 million units a year ago.

The Commerce Department reported single-family starts in August rose to a seasonally adjusted annual rate of 974,000 units, from 870,000 in July; multifamily starts increased to a seasonally adjusted annual rate of 425,000 units, compared with 379,000 in July.

Permits also rise. Building permits also continued to move upward, according to the Commerce Department. In August, the number of permits issued on single-family homes increased to a seasonally adjusted annual rate of 852,000, from 781,000 in July.

Multifamily permits increased slightly to a seasonally adjusted annual rate of 480,000 in August, compared with 455,000 in July.

However, the number of building permits issued continued below August 1979, when the new permits totaled 1.01 million.

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SAVINGS BANK STATISTICS

Prepared by RESEARCH AND
ECONOMICS DEPARTMENT
NATIONAL ASSOCIATION
OF MUTUAL SAVINGS BANKS

Jack Rubinson, Director

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Deposit flows in mutual savings banks continued to be disappointing in August as the industry experienced a net outflow of savings and time deposits amounting to $40 million, excluding interest. While this contrasts with a net gain of $241 million in the previous month, it, nevertheless, represents a marked improvement over the heavy outflow of $504 million experienced by the industry in the comparable period a year earlier. The cumulative May-August net deposit inflow of $318 million also contrasted sharply with the massive $2.2 billion outflow in the comparable 1979 period. Including interest of $600 million credited to depositors' accounts, outstanding savings and time deposits in August increased by $560 million.

Nevertheless, the August decline was a poorer August showing than most earlier periods of deposit recovery. This can be attributed to a recent surge in short-term interest rates which developed partly in response to surprising strength in the economy, unusually large increases in the money supply and continued inflationary pressures. The rise in rates—which reached their highest levels since early May—eliminated the rate differential on six-month money market certificates of deposit between commercial banks and thrift institutions and reduced the MMC yield differential over six-month Treasury bills from 50 to 25 basis points.

As a result, competition from these sources strengthened, drawing funds away from savings banks. Evidence of this can be seen in the continued, although reduced, attrition of $300 million in outstanding six-month money market balances at savings banks. The August decline compared with a $1.4 billion reduction in these accounts in July, and $1.1 and $700 million in June and May, respectively. The reduction in MMC balances occurred even though rates on these instruments climbed sharply during August from 9.12% to 10.5%, temporarily exceeding yields on money market funds. Moreover, it is interesting to note that outflows from six-month CDs have also been experienced by savings and loan associations and commercial banks.

It is also possible that some deposits originally destined for the money market CDs were diverted to the new 30-month certificate which, during most of August, carried ceiling rates

DEPOSIT ACTIVITY IN REGULAR ACCOUNTS IN MUTUAL SAVINGS BANKS,[1] BY STATES

(Amounts in thousands of dollars)

State	July 1980					July 1979				
	Amounts Deposited[2]	With-drawals	Net Change in Deposits			Amounts Deposited[2]	With-drawals	Net Change in Deposits		
			Excluding Interest	Incl. Interest				Excluding Interest	Incl. Interest	
				Amt.	%				Amt.	%
Connecticut	1,111,827	1,165,420	—53,593	40,481	.31	899,732	956,093	—56,361	10,352	.08
Indiana	15,496	14,421	1,075	1,271	.55	21,499	19,452	2,047	2,049	.94
Maine	271,070	256,438	14,632	29,486	1.23	229,954	217,472	12,482	25,604	1.13
Maryland	126,820	138,276	—11,456	—3,176	—.20	91,317	101,240	—9,923	4,566	.32
Massachusetts	2,167,539	2,179,229	—11,690	128,230	.62	1,942,927	1,992,455	—49,528	66,280	.32
New Hampshire	266,400	267,316	—916	16,452	.69	231,994	230,034	1,960	13,400	.59
New Jersey	803,347	786,511	16,836	71,947	.86	674,159	664,759	9,400	57,215	.73
New York—City	5,850,966	5,620,730	230,236	332,502	.62	4,450,084	5,041,713	—591,629	—547,336	—.99
—Upstate	2,125,724	2,147,643	—21,919	54,241	.24	1,871,794	1,919,595	—47,801	—18,465	—.08
Pennsylvania	1,365,881	1,375,769	—9,888	58,867	.48	1,359,610	1,367,017	—7,407	33,234	.28
Rhode Island	157,894	149,129	8,765	15,583	.96	161,914	159,125	2,789	8,685	.56
Vermont	88,857	83,998	4,859	7,634	.96	79,779	78,080	1,699	3,861	.51
Washington	422,262	404,085	18,177	23,608	.62	371,251	368,993	2,258	2,790	.08
Wisconsin	7,867	7,817	50	724	.91	5,760	4,960	800	910	1.22
All other states	348,626	287,242	61,384	69,301	3.02	238,034	241,773	—3,739	204	.01
Total	15,130,576	14,884,024	246,552	847,151	.58	12,629,808	13,362,761	—732,953	—336,651	—.23

Note: See notes to "Assets and Liabilities of All Mutual Savings Banks." [2] Excludes interest credited.

[1] Excludes special purpose accounts such as checking, Christmas, vacation and school. Source: National Association of Mutual Savings Banks.

Table 1

Income and Expenses of Mutual Savings Banks, by States, 1979

(in millions of dollars)

Item	Total	New York	Mass	Conn.	Pa	N.J	Wash	Me	N.H	R.I	Md	All other states
Total operating income	13.316	6.852	1.907	1.239	1.074	743	414	226	231	151	145	334
Interest and dividends on securities	3.846	2.260	525	197	435	210	34	38	39	24	26	59
U.S. Government and agency obligations	1.486†	879	n.a	60	111	129	19	19	19	16	16	25
Other securities	2.359†	1.381	n.a	137	324	80	15	18	20	8	10	33
Net interest and discount on loans	9.043	4.397	1.344	999	611	478	362	182	185	117	105	263
Mortgage loans	8.045†	3.975	n.a	862	543	421	319	156	156	101	82	235
Other loans	999†	422	n.a	137	68	57	42	26	29	16	23	28
Other operating income	427	195	39	43	28	55	19	6	7	9	14	12
Operating expenses and taxes	2.683	1.264	449	268	169	151	115	52	53	36	39	86
Net operating income after expenses and taxes	10.633	5.588	1.458	971	905	592	300	174	177	114	106	248
Interest paid depositors	9.876	5.324	1.309	866	833	545	270	154	155	100	93	227
Net operating income after expenses, taxes and interest	757	263	149	105	72	46	30	21	22	15	13	21
Net realized gains or losses on assets	−16	8	−48	30	−3	1	−2	−1	*	*	*	−1
Retained earnings	741	272	101	135	69	47	28	19	22	14	13	20

n.a. — not available.

*Less than $500,000.

†Partly estimated; separate data for Massachusetts are not available.

Source: National Association of Mutual Savings Banks.

Table 2

Income and Expense Ratios for Mutual Savings Banks, by States, 1979

(in per cent)

Item	Total	New York	Mass	Conn.	Pa	N.J	Wash	Me	N.H.	R.I	Md.	All other states
Ratios to total assets:												
Total operating income	8.26	8.00	8.46	8.76	8.26	8.34	9.43	8.84	8.91	8.75	8.39	8.51
Total operating expenses and taxes	1.66	1.48	1.99	1.89	1.30	1.70	2.61	2.02	2.06	2.11	2.26	2.19
Interest paid depositors	6.13	6.22	5.80	6.13	6.40	6.13	6.14	6.02	6.01	5.79	5.38	5.79
Net operating income after expenses, taxes and interest	.47	.31	.66	.74	.56	.52	.68	.80	.85	.85	.75	.54
Retained earnings	.46	.32	.45	.96	.53	.53	.64	.75	.85	.84	.75	.50
Ratios to total deposits:												
Interest paid depositors	6.80	6.88	6.36	6.86	7.05	6.75	7.07	6.74	6.85	6.47	6.14	6.68
Retained earnings	.51	.35	.49	1.07	.59	.58	.74	.84	.97	.94	.85	.58
Ratios to securities held:												
Interest on U.S. Government and agency securities	8.09†	8.02	n.a	8.32	8.66	8.13	7.71	8.37	7.76	7.80	8.19	8.18
Interest and dividends on other securities	7.83†	7.83	n.a	7.90	7.97	7.47	7.55	7.66	8.00	7.35	7.26	7.41
Interest and dividends on total securities	7.93†	7.91	n.a	8.02	8.13	7.87	7.64	8.01	7.88	7.65	7.81	7.73
Ratio to mortgage loans:												
Net interest and discount on mortgage loans	8.26†	7.97	n.a	8.78	8.37	8.27	9.60	8.96	9.13	8.66	8.16	8.58

n.a. — not available.

†Ratios are computed on the basis of data from states other than Massachusetts.

NOTE: Ratios are computed from data in Table 1 and average asset and liability figures.

Source: National Association of Mutual Savings Banks.

Table 3

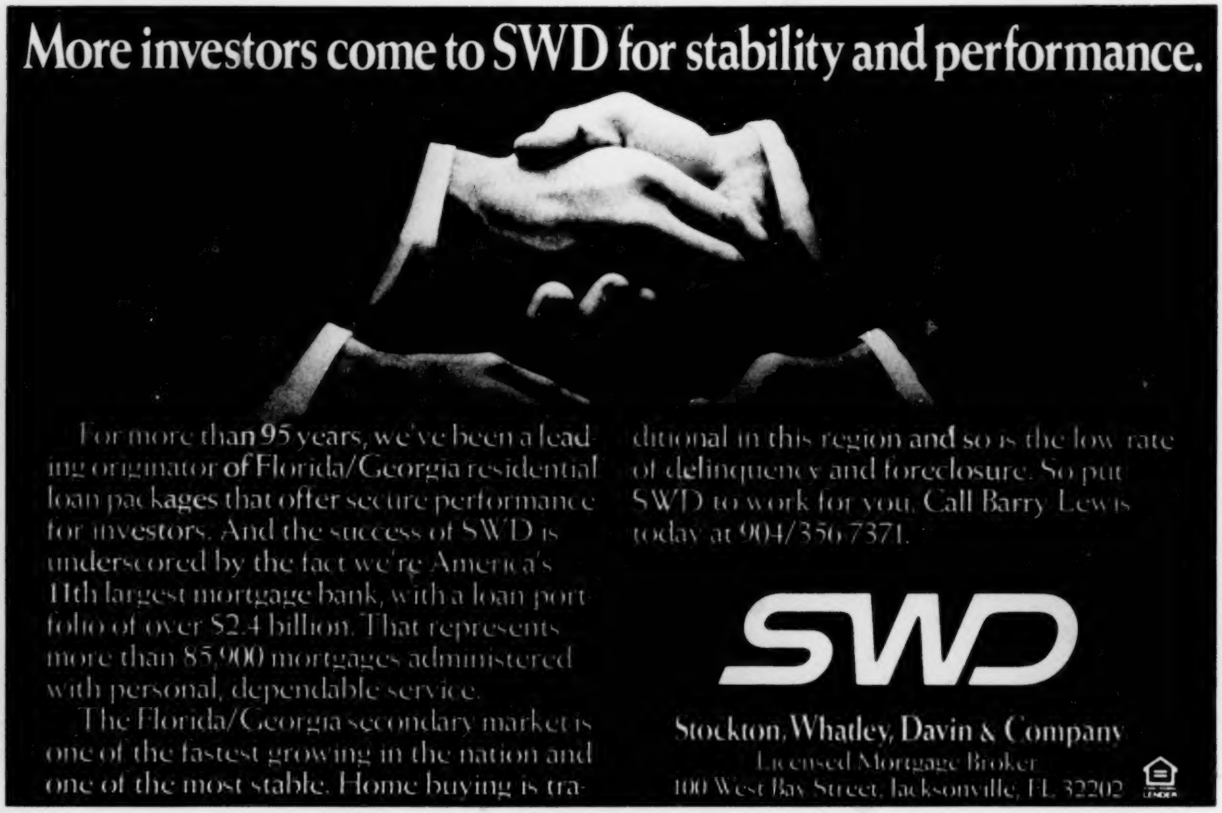
Income and Expense Ratios for Mutual Savings Banks, by Deposit Size, 1979

(in per cent)

Item	Total	Deposit size (in millions of dollars) Less than 25.0	25.0 to 49.9	50.0 to 99.9	100.0 to 249.9	250.0 to 499.9	500.0 to 999.9	1,000.0 to 1,999.9	2,000.0 or more
Ratios to total assets:									
Total operating income	8.26	8.52	8.57	8.64	8.52	8.47	8.11	8.21	8.01
Total operating expenses and taxes	1.66	2.04	1.97	1.90	1.91	1.78	1.66	1.62	1.41
Interest paid depositors	6.13	5.67	5.76	5.99	5.95	6.08	6.00	6.20	6.31
Net operating income after expenses, taxes and interest	.47	.81	.84	.75	.66	.61	.45	.39	.28
Retained earnings	.46	.68	.70	.71	.58	.49	.43	.45	.32
Ratios to total deposits:									
Interest paid depositors	6.80	6.23	6.34	6.57	6.60	6.72	6.71	6.91	7.00
Retained earnings	.51	.75	.77	.78	.65	.54	.48	.51	.35
Ratios to securities held:									
Interest on U.S. Government and agency securities†	8.09	7.88	7.79	8.08	8.02	7.95	8.00	8.20	8.10
Interest and dividends on other securities†	7.83	8.64	8.00	7.99	7.99	7.96	7.59	7.95	7.76
Interest and dividends on total securities†	7.93	8.25	7.91	8.03	8.00	7.95	7.77	8.05	7.86
Ratio to mortgage loans:									
Net interest and discount on mortgage loans†	8.26	8.70	8.82	8.52	8.69	8.54	8.11	8.17	7.97

†Ratios are computed on basis of data from states other than Massachusetts.

Source: National Association of Mutual Savings Banks.



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above yields available on the MMCs. Although slackening somewhat, growth in these 2½-year accounts at savings banks still registered a substantial $800 million in August and by the end of the month, outstanding balances totaled $9.5 billion or about 6.4% of total deposits.

Another factor in the industry's lackluster deposit performance in August was the unabated competition from money market funds despite the improved competitive rate conditions for savings banks in this period. Many investors may have switched into equity mutual funds via the money market funds to take advantage of the summer bull market for stocks. Such adroit investment maneuvering is made possible by a sizable number of "family" mutual funds that permit switching between money funds and other funds in stocks, bonds and tax-exempt municipal issues.

The prospect of a volatile and highly competitive financial environment for savings banks has raised further doubts about industry deposit performance in the near term. Although the outlook is still unclear, there is every indication that interest rate pressures will remain strong in the immediate weeks ahead in response to high inflation and a continued strong anti-inflationary policy by the Federal Reserve.

(END)

DEPOSIT ACTIVITY IN REGULAR ACCOUNTS IN MUTUAL SAVINGS BANKS

(Amounts in millions of dollars, accounts in thousands)

Period	Amounts Deposited	With-drawals	Net change in deposits			Number of accounts	
			Excluding interest	Including interest			
				Amt.	%	Total	Net Change
Annually							
1975	53,125	48,369	4,757	11,070	11.27	26,284	980
1976	62,429	57,147	5,283	12,269	11.23	27,533	1,151
1977	73,306	70,431	2,874	10,687	8.76	28,825	1,303
1978	91,967	92,558	—591	7,697	5.80	30,472	1,647
1979	121,994	128,955	—6,962	2,492	1.77	n.a.	n.a.
Monthly							
1979—Aug.	9,829	10,333	—504	—92	—.06	n.a.	n.a.
Sept.	8,924	9,996	—1,072	487	.34	n.a.	n.a.
Oct.	12,699	14,120	—1,421	—1,028	—.71	n.a.	n.a.
Nov.	10,231	10,996	—765	—325	—.23	n.a.	n.a.
Dec.	9,958	10,945	—987	830	.58	n.a.	n.a.
1980—Jan.	13,611	15,047	—1,436	—928	—.64	n.a.	n.a.
Feb.	10,549	11,092	—543	—79	—.05	n.a.	n.a.
Mar.	14,413	15,091	—679	930	.65	n.a.	n.a.
Apr.	17,246	18,271	—1,024	—449	—.31	n.a.	n.a.
May	12,559	12,317	242	861	.60	n.a.	n.a.
June	11,388	11,519	—131	1,693	1.17	n.a.	n.a.
July	15,131	14,884	247	847	.58	n.a.	n.a.
Aug. (Est.)	n.a.	n.a.	—40	560	.38	n.a.	n.a.

n.a.—not available. Est.—estimated.

Note: Annual and monthly data for net change in deposits including interest and net change in number of accounts have been adjusted, where necessary, to exclude the effects of conversions and consolidations of savings banks and other types of institutions. Amounts deposited and withdrawals include shifts of funds between ordinary and time and other higher-yield accounts. Components may not add to totals due to rounding. Source: National Association of Mutual Savings Banks.

ASSETS AND LIABILITIES OF ALL MUTUAL SAVINGS BANKS

(Amounts in millions of dollars)

Date	Mortgages	GNMAs	Investments				Other assets	Total assets-Total liabilities & gen. res. accts.	Deposits			Other liabil-ities	General reserve accounts
			U.S. Govt. & Federal agencies	State & local Govt.	Corporate bonds	Corporate stocks			Total*	Savings	Time		
1975 Dec. 31	77,221	3,367	7,507	1,545	17,536	4,322	9,558	121,056	109,873	69,653	39,639	2,755	8,428
1976 Dec. 31	81,630	5,808	9,109	2,417	20,335	4,381	11,131	134,812	122,877	74,535	47,426	2,884	9,052
1977 Dec. 31	88,195	8,331	9,233	2,828	21,498	4,751	12,450	147,287	134,017	78,005	54,739	3,292	9,978
1978 Dec. 31	95,157	10,021	8,297	3,333	21,566	4,807	14,991	158,174	142,701	71,816	69,354	4,565	10,907
1979 Sept. 30	97,980	11,405	7,874	3,133	20,858	4,816	17,429	163,494	146,394	65,683	78,689	5,715	11,385
Oct. 31	98,311	11,594	7,734	3,083	20,835	4,778	16,862	163,197	145,247	62,678	80,712	6,517	11,434
Nov. 30	98,610	11,626	7,754	3,003	20,647	4,763	16,802	163,205	144,828	61,156	81,908	6,872	11,504
Dec. 31	98,908	11,820	7,658	2,930	20,507	4,760	16,821	163,405	146,006	61,123	82,947	5,873	11,525
1980 Jan. 31	98,940	11,959	7,387	2,887	20,423	4,732	16,925	163,252	145,044	59,252	83,891	6,664	11,544
Feb. 29	99,220	12,154	7,436	2,853	20,498	4,571	17,538	164,270	145,171	58,234	85,050	7,485	11,615
Mar. 31	99,151	12,512	7,629	2,824	20,558	4,423	18,010	165,107	146,328	56,948	87,266	7,136	11,643
Apr. 30	99,045	12,724	7,548	2,791	20,681	4,396	18,180	165,366	145,821	54,247	89,517	7,916	11,629
May 31	99,163	12,975	7,527	2,727	20,864	4,407	18,679	166,340	146,637	54,669	89,977	8,162	11,542
June 30	99,150	12,843	7,530	2,701	21,079	4,403	19,295	167,002	148,563	56,329	90,065	6,975	11,465
July 31	99,268	13,148	7,852	2,697	21,399	4,381	19,236	167,981	149,554	57,682	89,708	7,025	11,402
Aug. 31 (Est.)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	150,164	n.a.	n.a.	n.a.	n.a.
% of Total Assets													
July 31, 1980	59.1	7.8	4.7	1.6	12.7	2.6	11.5	100.0	89.0	34.3	53.4	4.2	6.8
Change during month	—7	304	321	—4	320	—22	—88	824	842	1,262	—415	50	—67

Note: Balance sheet data beginning with April 30, 1979 are not strictly comparable with prior months. This largely reflects: (1) changes in FDIC reporting procedures; and (2) reclassification of certain items.

n.a.—not available. Est.—estimated. Source: National Association of Mutual Savings Banks.

* — Total deposit figures include checking, school, club and certain other accounts not shown separately.

Note: GNMA figures refer to all types of mortgage-backed securities guaranteed by the Government National Mortgage Association.